

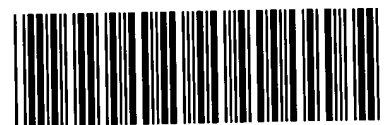
**Ornua Foods UK Limited**

**Directors' Report and Financial Statements**

**Period Ended 29 December 2018**

**Company Registered Number: 00362221**

THURSDAY



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## DIRECTORS AND OTHER INFORMATION

### Board of Directors

D Buggy  
W Hunter  
N Kennedy  
A Jackson  
R Hennerty  
S Stanley  
G Walsh

### Solicitors

Burges Salmon  
One Glass Wharf  
Bristol  
BS2 0ZX  
United Kingdom

### Secretary and Registered Office

J Lockey  
Sunnyhills Road  
Leek  
Staffordshire  
ST13 5SP  
United Kingdom

### Bankers

HSBC Bank PLC  
60 Queen Victoria Street  
London  
EC4N 4TR  
United Kingdom

**Registered Number:** 00362221

### Independent Auditors

PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors  
One Spencer Dock  
North Wall Quay  
Dublin 1  
Ireland

## **STRATEGIC REPORT**

### **For the period ended 29 December 2018**

The directors present their annual strategic report for the period ended 29 December 2018.

#### **Principal activities**

The company's principal activity during the period was the production, packaging and marketing of food products.

#### **Business review and results**

The directors are pleased to report a solid financial performance for the period. This reflected the business's commitment to following a clear and consistent strategy to deliver stability of performance in what continues to be a highly challenging and volatile market environment. A strategy focussed on driving continuous improvement, delivering best in class category expertise and support to customers, building a strong own-label and branded product portfolio and optimising experience in dairy commodities.

During 2018, the company continued to make a strong level of investment in capital expenditure and marketing. Capital expenditure included further investment in industry leading cheese cutting & packing technology and energy reduction projects. In addition, the business continued to invest heavily in multi-channel marketing campaigns for both its Pilgrims Choice and Kerrygold brands. A brand new and highly innovative Pilgrims Choice TV and online advertising campaign was successfully launched in the year which received a high level of consumer engagement and helped reinforce its position as the clear No.2 Cheddar brand in the UK.

The results for the company show a pre-tax profit of £6.8 million (2017: £7.1 million pre-tax profit) for the period. The slight drop in profitability was due to less favourable market conditions for traded commodities which was largely offset by a strong underlying performance in the core business which was driven by a better customer mix, branded sales and an ongoing focus on rigorous cost control and efficiencies. The company's sales volumes remained stable with sales increasing to £322 million (2017: £319 million). The full year effect of a number of important new business wins in 2018 and the capital investment programmes undertaken is expected to be reflected in future years.

The company has net assets of £31.8 million (2017: £25.0 million) at the balance sheet date.

#### **Business model**

The company is focused on delivering quality, customer service excellence and innovative ways of working for major UK retailers. The cheese packing facility in Leek, Staffordshire is state-of-the-art and with the ongoing investment planned for the current and future years it will continue to give the company a competitive advantage in the marketplace.

The company produces and purchases butter and cheese which is packed into a range of formats for selling into the retail own-label and branded market, primarily in the UK. Cheese and butter products are purchased both from the company's parent (Ornua Co-operative Limited) and also a range of cheese suppliers in the UK. Retail sales are supported by substantial and innovative brand marketing activities. Pilgrims Choice is the clear No.2 branded cheddar in the UK and was supported during the period by continued investment in highly creative and disruptive TV and multi-channel advertising. Kerrygold is the No.3 block butter brand in the UK.

Key customers include the major supermarkets alongside other retailers.

#### **Business outlook and strategy**

The company operates in a highly competitive and changing market. Business processes and strategies are in place to enable the company to anticipate, monitor and adapt to market changes within this environment through frequent and close engagement with key suppliers and customers and the careful management of costs at its facilities.

The post-Brexit trading environment remains uncertain in the UK. The company has been working closely with customers to ensure security of supply and has undertaken a range of strategic measures to help minimise any potential negative impact. Central to this has been putting in place contingency stock storage in the UK, developing tailored customer stock requirement plans and the maintaining of a rigorous focus on production efficiency, product quality, customer service and new product development so that Ornua remains a supplier of choice in the UK market.

**STRATEGIC REPORT – continued**  
**For the period ended 29 December 2018**

**Principal risks and uncertainties**

The key risks in the business are the management of raw material prices as a result of the uncertainties presented by a commodity market, as well as the retention of key customers in what is an ever changing and very competitive trading environment.

In the directors' opinion there are no key financial risks which are deemed to have a potential material impact on the amount of the company's assets, liabilities, financial position and profit and loss for the financial period.

**Key performance indicators**

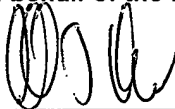
The financial key performance indicators that provide an understanding of the development, performance and position of the business are primarily changes in sales volumes, margins per tonne and pre-tax profits.

**Future developments**

The external commercial environment is expected to remain competitive. However, the ongoing investments in this modern packaging facility, together with the company's continued focus on product innovation and class leading category support means that it is well placed to service the needs of its customers in the years ahead.

The directors are confident that the company will continue to add value and grow in the future through the strategic deployment of its resources, the utilisation of its facilities and engagement with both suppliers and customers to meet consumer expectations.

On behalf of the board

  
\_\_\_\_\_

W Hunter

Date:

8/5/19

## DIRECTORS' REPORT

The directors present their report and the audited financial statements of the company for the period ended 29 December 2018.

### Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

### Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

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

### Accounting records

The measures taken by the directors to secure compliance with the company's obligation to keep proper accounting records are the use of appropriate systems and procedures and employment of competent persons. The accounting records are kept at Sunnyhills Road, Leek, Staffordshire, ST13 5SP, United Kingdom.

### Directors

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

D Buggy	(resident in the Republic of Ireland)
J Jordan	(resident in the Republic of Ireland, resigned 9 January 2019)
W Hunter	
N Kennedy	
A Jackson	
R Hennerty	(resident in the Republic of Ireland, appointed 9 January 2019)
S Stanley	(appointed 9 January 2019)
G Walsh	(appointed 9 January 2019)

### Secretary

J Lockey

## **DIRECTORS' REPORT - continued**

### **Employees**

The company recognises its responsibilities towards disabled persons by giving fair consideration to applications for employment from such people, having regard to the particular aptitudes and abilities of each applicant.

Compassionate consideration is given to existing employees who become disabled. Training and career opportunities are offered to disabled persons in line with the company's general policy of career development subject to the capabilities of each person and the opportunities within the company.

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and the various factors affecting the performance of the company.

This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

### **Political and charitable contributions**

The company made no political donations during the period (2017: £Nil). Donations to UK charities amounted to £Nil (2017: £Nil) during the period.

### **Financial risk management**

The company's operations expose it to a variety of financial risks that include price risk, credit risk and liquidity risk. The company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the company by monitoring levels of debt finance and the related finance costs.

#### **Credit risk**

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the company's receivables. Credit risk is managed by the board of directors. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

#### **Liquidity risk**

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The risk of liquidity is managed by using cash flow forecasts; and to ensure that it will always have sufficient cash to allow it to meet its liabilities as and when they fall due.

### **Research and development**

There was no research and development for the period.

### **Post balance sheet events**

The directors are not aware of any events since the reporting period end that may impact the financial statements.

### **Directors' and secretary's interests in shares and debentures**

The directors' and company secretary had no interest in the Company's shares during the period (2017: £Nil.)

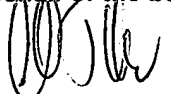
### **Dividends and transfers to reserves**

The directors do not recommend a dividend payment (2017: £Nil). The retained profit for the period of £5,552,000 (2017: profit £5,752,000) has been transferred to reserves.

### **Independent auditors**

The independent auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting

### **On behalf of the board**



**W Hunter**

Director

Date:

8/5/19



# ***Independent auditors' report to the members of Ornua Foods UK Limited***

## **Report on the audit of the financial statements**

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### **Opinion**

In our opinion, Ornua Foods UK Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 29 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Directors' Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 29 December 2018; the profit and loss account, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Independence**

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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### **Conclusions relating to going concern**

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.





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## **Reporting on other information - continued**

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

### *Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 29 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

## **Responsibilities for the financial statements and the audit**

### *Responsibilities of the directors for the financial statements*

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

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

### *Auditors' responsibilities for the audit of the financial statements*

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### *Use of this report*

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



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## Other required reporting

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### Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

A handwritten signature in black ink, appearing to read 'Siobhan Collier'.

Siobhan Collier  
for and on behalf of PricewaterhouseCoopers  
Chartered Accountants and Statutory Auditors  
Dublin

10 May 2019

**PROFIT AND LOSS ACCOUNT**  
**Period Ended 29 December 2018**

	Note	2018 £'000	2017 £'000
<b>Turnover</b>	5	321,658	319,210
Cost of sales		<u>(294,732)</u>	<u>(290,169)</u>
<b>Gross profit</b>		26,926	29,041
Distribution costs		(6,876)	(7,951)
Administrative expenses		<u>(11,497)</u>	<u>(12,223)</u>
<b>Operating profit before exceptional items</b>		8,553	8,867
Exceptional items	6	<u>(700)</u>	<u>(505)</u>
<b>Operating profit</b>	7	7,853	8,362
Interest receivable and similar income	9	794	556
Interest payable and similar expenses	9	<u>(1,880)</u>	<u>(1,781)</u>
<b>Profit before taxation</b>		6,767	7,137
Tax on profit	10	<u>(1,215)</u>	<u>(1,385)</u>
<b>Profit for the financial period</b>		<u>5,552</u>	<u>5,752</u>

**STATEMENT OF COMPREHENSIVE INCOME**  
**Period ended 29 December 2018**

	2018 £'000	2017 £'000
<b>Profit for the financial period</b>	5,552	5,752
Actuarial gain recognised in the pension scheme	1,536	755
Taxation on other comprehensive income	<u>(277)</u>	<u>(132)</u>
<b>Total comprehensive income for the financial period</b>	<u>6,811</u>	<u>6,375</u>

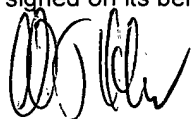
All amounts relate to continuing operations.

**BALANCE SHEET**  
**As at 29 December 2018**

	Note	2018 £'000	2017 £'000
<b>Fixed assets</b>			
Intangible assets	11	3,440	4,171
Investments	12	-	-
Tangible assets	13	30,728	29,735
		<u>34,168</u>	<u>33,906</u>
<b>Current assets</b>			
Inventories	14	41,887	25,273
Debtors	15	53,742	56,285
Cash at bank and in hand		25,557	6,564
		<u>121,186</u>	<u>88,122</u>
<b>Creditors: amounts falling due within one year</b>	16	<u>(112,214)</u>	<u>(85,120)</u>
<b>Net current assets</b>		<u>8,972</u>	<u>3,002</u>
<b>Total assets less current liabilities</b>		43,140	36,908
<b>Creditors: amounts falling due after more than one year</b>	17	(100)	(100)
Pension liabilities	18	(9,783)	(10,571)
Deferred taxation liability	19	<u>(1,415)</u>	<u>(1,206)</u>
<b>Net assets including pension liabilities</b>		<u>31,842</u>	<u>25,031</u>
<b>Capital and reserves</b>			
Called up share capital	20	1,706	1,706
Share premium account		1,379	1,379
Other reserves		50	50
Profit and loss account		28,707	21,896
<b>Total shareholders' funds</b>		<u>31,842</u>	<u>25,031</u>

The notes on pages 13 to 33 form part of the financial statements.

These financial statements on pages 10 to 33 were approved by the board of directors on May 8<sup>th</sup> 2019 and were signed on its behalf by:



**W Hunter**  
**Director**

**STATEMENT OF CHANGES IN EQUITY**  
**Period Ended 29 December 2018**

	Called up share capital £'000	Share premium £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
Balance at 1 January 2017	1,706	1,379	50	15,521	18,656
Profit for the period	-	-	-	5,752	5,752
Other comprehensive income for the period	-	-	-	623	623
Total comprehensive income for the period	-	-	-	6,375	6,375
<b>Balance at 30 December 2017</b>	<b>1,706</b>	<b>1,379</b>	<b>50</b>	<b>21,896</b>	<b>25,031</b>
Balance at 31 December 2017	1,706	1,379	50	21,896	25,031
Profit for the period	-	-	-	5,552	5,552
Other comprehensive income for the period	-	-	-	1,259	1,259
Total comprehensive income for the period	-	-	-	6,811	6,811
<b>Balance at 29 December 2018</b>	<b>1,706</b>	<b>1,379</b>	<b>50</b>	<b>28,707</b>	<b>31,842</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 1 General information

Ornua Foods UK Limited ('the company') is involved in the production, packaging and marketing of food products.

The company is a private company, limited by its shares, and is incorporated and domiciled in the United Kingdom. The address of its registered office is Sunnyside Road, Leek, Staffordshire, ST13 5SP.

Ornua Foods UK Limited's immediate parent is Irish Dairy Board (UK) Limited, a company incorporated in the United Kingdom. Ornua Foods UK Limited's ultimate parent and ultimate controlling party is Ornua Co-operative Limited. Ornua Co-operative Limited is incorporated in the Republic of Ireland. Ornua Co-operative Limited prepares group financial statements and is the smallest and largest group for which group financial statements are drawn up and of which Ornua Foods UK Limited is a member. Copies of Ornua Co-operative Limited's group financial statements are available from the Company Secretary, Grattan House, Mount Street Lower, Dublin 2, Ireland.

### 2 Statement of compliance

The individual financial statements of Ornua Foods UK Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

### 3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

#### (a) Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention.

The preparation of financial statements in conformity with FRS 102 requires the use of certain key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date. It also requires the directors to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or areas where assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed in note 4.

#### (b) Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the company's shareholders.

The company has taken advantage of the following exemptions:-

- (i) Exemption from the requirements of Section 7 of FRS 102 and FRS 102 paragraph 3.17 (d) to present a statement of cash flows.
- (ii) Exemption from the financial instrument disclosure requirements of Section 4 paragraphs 11.39 to 11.48A and Section 12 paragraphs 12.26 to 12.29A of FRS 102 as the equivalent disclosures are included in the consolidated financial statements of Ornua Co-operative Limited.
- (iii) Exemption from the requirements of FRS102 paragraph 33.7 to disclose key management personnel compensation in total.
- (iv) Exemption from the requirements of FRS 102 paragraph 33.9 to disclose related party transactions.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3 Summary of significant accounting policies - continued

#### (c) Foreign currency

##### (i) *Functional and presentation currency*

The company's functional and presentation currency is the Pound Sterling, denominated by the symbol "£"

##### (ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit and loss account within 'interest receivable and similar income' or 'interest payable and similar charges' as appropriate. All other foreign exchange gains and losses are presented in the profit and loss account.

#### (d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed by the company and value added taxes.

The company bases its estimate of returns, discounts and rebates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Where the consideration receivable in cash or cash equivalents is deferred, and the arrangement constitutes a financing transaction, the fair value of the consideration is measured as the present value of all future receipts using the imputed rate of interest.

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

##### (i) *Sale of goods*

Turnover represents the amounts (excluding value added tax) derived from the production, packaging and distribution of food products to customers during the period. Sale of goods are recognised on delivery to the customer, when the customer has full discretion over the channel and price to sell the product and there is no unfulfilled obligation that could affect the customer's acceptance of the product. Delivery occurs when the goods have been shipped to the location specified by the customer, the risk of obsolescence or loss have been transferred to the customer, the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the company has objective evidence that all criteria for acceptance have been satisfied.

Goods sold to customers are often sold with volume rebates and also with the provision for the customer to return the faulty goods. Sales are measured at the prices specified in the sale contract, net of estimated volume rebates and returns. Volume rebates are assessed based on anticipated annual purchases. Accumulated experience is used to estimate and provide for the discounts and returns.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3 Summary of significant accounting policies - continued

#### (d) Revenue recognition - continued

(i) *Sale of goods - continued*

Sales are made with credit terms agreed with individual customers. The element of financing is deemed immaterial and is disregarded in the measurement of revenue.

(ii) *Interest income*

Interest income is recognised using the effective interest rate method. Interest income is presented as 'interest receivable and similar income' in the profit and loss account.

#### (e) Exceptional items

The company classifies certain one-off charges or credits that have a material impact on the company's financial results as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the company.

#### (f) Employee benefits

The company provides a range of benefits to employees, including short term employee benefits such as annual bonus arrangements and paid holiday arrangements and post-employment benefits (in the form of defined contribution and defined benefit pension plans).

(i) *Short term employee benefits*

Short term employee benefits, including paid holiday arrangements and other similar non-monetary benefits, are recognised as an expense in the financial period in which employees render the related service.

(ii) *Defined contribution pension plan*

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

(iii) *Defined benefit pension plan*

The company operates a defined benefit pension plan for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration. A defined benefit plan is a post-employment benefit other than a defined contribution plan.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of each financial year less the fair value of the plan assets at that date.

The defined benefit obligation is calculated using the projected unit credit method. Annually the company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in Pound Sterling and that have terms approximating the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest cost, are presented as 'remeasurement of net defined benefit liability'.



## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3 Summary of significant accounting policies - continued

#### (f) Employee benefits - continued

##### (iii) *Defined benefit pension plan - continued*

The cost of the defined benefit pension plan, recognised in profit or loss, except where included in the cost of an asset, comprises:

- (a) the increase in pension benefit liability arising from employee service during the period; and
- (b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as 'finance expense' and presented within 'interest payable and similar charges'.

#### (g) Taxation

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

Current or deferred taxation assets and liabilities are not discounted.

##### (i) *Current tax*

Current tax is the amount of income tax payable in respect of the taxable profit for the financial period or past financial periods. Tax is calculated on the basis rates and laws that have been enacted or substantively enacted by the end of the period end.

The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. A current tax liability is recognised where appropriate and measured on the basis of amounts expected to be paid to the tax authorities.

##### (ii) *Deferred tax*

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

#### (h) Intangible assets

- (i) Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the depreciable amount of the assets to their residual value over their expected useful lives as follows:

- Software 3-5 years

Acquired software costs are recognised as an intangible asset at their purchase price and amortised over the estimated economic useful life of the asset.

The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 3 Summary of significant accounting policies - continued

## (h) Intangible assets - continued

- (ii) Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the income statement. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the cash-generating unit (CGU) containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

## (i) Tangible assets

Tangible fixed assets are carried at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to the location and condition necessary for its intended use, applicable dismantling, removal and restoration costs and borrowing costs capitalised.

(i) *Land and buildings*

Land and buildings include freehold and leasehold factories, retail outlets and offices. Land and buildings are carried at cost less accumulated depreciation and accumulated impairment losses.

(ii) *Plant and machinery and fixtures, fittings, tools and equipment*

Plant and machinery and fixtures, fittings, tools and equipment are carried at cost less accumulated depreciation and accumulated impairment losses

(iii) *Depreciation and residual values*

Land is not depreciated. Depreciation on other assets is calculated, using the straight-line method over their estimated useful lives, as follows.

- Freehold buildings	2.5% based on cost or valuation
- Plant and machinery	10% to 20% based on cost
- Fixtures and fittings	20% based on cost
- Motor vehicles	33% based on cost

(iv) *Subsequent additions and major components*

Subsequent costs, including major inspections, are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that economic benefits associated with the item will flow to the company and the cost can be measured reliably.

The carrying amount of any replaced component is derecognised. Major components are treated as separate assets where they have significantly different patterns of consumption of economic benefits and are depreciated separately over their useful lives.

Repairs, maintenance and minor inspection costs are expensed as incurred.

(v) *Payments on account and assets in the course of construction*

Payment on account and assets in the course of construction are carried at cost. These assets are not depreciated until they are available for use.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3 Summary of significant accounting policies - continued

#### (i) Tangible assets - continued

##### (vi) *Derecognition*

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss.

#### (j) Borrowing costs

All borrowing costs are recognised in profit or loss in the financial year in which they are incurred.

#### (k) Leased assets

At inception the company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

##### (i) *Finance leases*

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases.

Finance leases are capitalised at commencement of the lease as assets at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease. Where the implicit rate cannot be determined the company's incremental borrowing rate is used. Incremental direct costs incurred in negotiating and arranging the lease, are included in the cost of the asset.

Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at the end of each reporting date.

The capital element of lease obligations is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest method, to produce a constant rate of charge on the balance of the capital repayments outstanding

##### (ii) *Operating leased assets*

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

##### (iii) *Lease incentives*

Incentives received to enter into a finance lease reduce the fair value of the asset and are included in the calculation of the present value of minimum lease payments.

Incentives received to enter into an operating lease are recognised as a reduction of the operating lease expense on a straight-line basis over the term of the lease.

The company has taken advantage of the exemption in respect of lease incentives on leases in existence on the date of transition to FRS 102 (29 December 2013) and continues to recognise such lease incentives as a reduction in the operating lease expense on a straight-line basis over the period to the first review date on which the rent is adjusted to market rates.

#### (l) Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash generating unit) may be impaired. If there is such an indication the recoverable amount of the asset (or asset's cash-generating unit) is compared to the carrying amount of the asset (or asset's cash generating unit).

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3 Summary of significant accounting policies - continued

#### (l) Impairment of non-financial assets - continued

The recoverable amount of the asset (or asset's cash generating unit) is the higher of its fair value less costs to sell and its value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtained as a result of the asset's (or asset's cash-generating unit) continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks specific to the asset.

If the recoverable amount of the asset (or cash-generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit or loss account, unless the asset has been revalued, when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in the profit or loss account.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or asset's cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

#### (m) Inventories

Inventories are stated at the lower of cost and estimated selling price less costs to complete and sell. Inventories are recognised as an expense in the financial year in which the related revenue is recognised.

Cost is determined using weighted average costing method. Cost comprises the purchase price, including taxes and duties and transport and handling directly attributable to bringing the stock to its present location and condition. The cost of manufactured finished goods and work in progress includes design costs, raw materials, direct labour and production overheads (based on normal operating capacity).

At the end of each reporting period inventories are assessed for impairment. If an item of inventory is impaired, the identified inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the profit and loss account. Where a reversal of the impairment is recognised the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the profit and loss account.

#### (n) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

#### (o) Provisions and contingencies

##### (i) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

In particular:

- (a) Restructuring provisions are recognised when the company has a detailed, formal plan for the restructuring and has raised a valid expectation in those affected by either starting to implement the plan or announcing its main features to those affected and therefore has a legal or constructive obligation to carry out the restructuring; and

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3 Summary of significant accounting policies - continue

#### (o) Provisions and contingencies - continued

##### (ii) Provisions

- (b) Provision is not made for future operating losses.

Provisions are measured at the present value of the amount required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

##### (iii) Contingencies

Contingent liabilities are not recognised. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

#### (p) Financial instruments

The company has chosen to apply the provisions of Sections 11 and 12 of FRS 102 to account for all of its financial instruments.

##### (i) Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances and investments in commercial paper, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period, financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired an impairment loss is the difference between the estimated cash inflows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the previously recognised impairment loss is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment loss not previously been recognised. The impairment reversal is recognised in profit or loss.

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price.

Such financial assets are subsequently measured at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are subsequently measured at cost less impairment.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3 Summary of significant accounting policies - continued

#### (p) Financial instruments - continued

##### (ii) *Financial liabilities*

Basic financial liabilities, including trade and other creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Preference shares, which result in fixed returns to the holder or are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the profit and loss account as interest expense.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

##### (iii) *Derivatives*

Derivatives, including interest rate swaps and forward foreign exchange contracts are not basic financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in the profit and loss in finance cost or income as appropriate.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

##### (iv) *Offsetting*

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### (q) Investments

##### *Investments in subsidiary undertakings*

The company's investments in subsidiaries are carried at historical cost less accumulated impairment losses.

- (r) Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### (s) Distributions to equity holders

Dividends and other distributions to company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the company's shareholders. These amounts are recognised in the statement of changes in equity.

#### (t) Related party transactions

The company discloses transactions with related parties which are not wholly owned within the same group. It does not disclose transactions with members of the same group that are wholly owned.

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 4 Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

## (a) Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) *Useful economic lives of tangible assets*

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 13 for the carrying amount of the property plant and equipment, and note 3(j) for the useful economic lives for each class of assets.

(ii) *Inventory provisioning*

The company sells dairy and related products to the wholesale market, and is subject to changing consumer demands and spending trends. As a result it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials. See note 14 for the net carrying amount of the inventory and associated provision.

(iii) *Impairment of debtors*

The company make an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management consider factors including the current credit rating of the debtor, the age profile of debtors, and historical experience. See note 15 for the net carrying amount of the debtors and associated impairment provision.

(iv) *Defined benefit pension scheme*

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 18 for the disclosures relating to the defined benefit pension scheme.

## 5 Turnover

	2018 £'000	2017 £'000
<b>Analysis of turnover by geography</b>		
United Kingdom	305,773	298,461
Rest of Europe	15,885	20,683
Rest of World	-	66
	<u>321,658</u>	<u>319,210</u>
<b>Analysis of turnover by category</b>		
Sale of goods	<u>321,658</u>	<u>319,210</u>

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 6 Exceptional items

	2018 £'000	2017 £'000
Pension GMP equalisation cost	582	-
Restructuring cost	118	505
	<u>700</u>	<u>505</u>

There was a charge in the year of £582,000 to take account of the requirement to equalise benefits in respect of Guaranteed Minimum Pensions.

## 7 Operating profit

Operating profit is stated after charging/(crediting)	2018 £'000	2017 £'000
Wages and salaries	16,614	16,510
Social security costs	1,513	1,457
Other pension costs	1,639	995
<b>Staff costs</b>	<u>19,766</u>	<u>18,962</u>
Depreciation of tangible fixed assets (note 13)	2,803	2,312
Amortisation of intangibles (note 11)	731	731
Impairment of inventory (note 14)	429	114
Impairment of debtors (note 15)	-	(16)
Net inventory recognised as expense	269,504	249,503
Hire of other assets - operating leases	263	228
Services provided by the auditor:		
- Fees payable for the audit	<u>34</u>	<u>33</u>

## 8 Employees and directors

## (i) Employees

The average number of persons employed by the company (including directors) during the period, analysed by category, was as follows:

	Number of employees	
	2018	2017
Production	530	541
Selling and distribution	27	32
Administration	42	44
	<u>599</u>	<u>617</u>

## (ii) Directors

The directors' emoluments were as follows:

	2018 £'000	2017 £'000
Aggregate emoluments	210	172
Company contributions to money purchase pension schemes	<u>9</u>	<u>10</u>
	<u>219</u>	<u>182</u>



## NOTES TO THE FINANCIAL STATEMENTS - continued

**8 Employees and directors - continued**

The aggregate of emoluments of the highest paid director was £219,232 (2017: £181,857). They are not a member of a defined retirement benefit scheme.

	Number of directors	
	2018	2017
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	<u>1</u>	<u>1</u>

**9 Net interest expense****(a) Interest payable and similar expenses**

	2018 £'000	2017 £'000
On bank loans and overdrafts	91	17
On amounts due to group undertakings	916	868
Other interest and similar charges	873	896
	<u>1,880</u>	<u>1,781</u>
Total interest expense on financial liabilities not measured at fair value through profit or loss	<u>(1,880)</u>	<u>(1,781)</u>

**(b) Interest receivable and similar income**

	2018 £'000	2017 £'000
Bank interest	415	249
On amounts due from group undertakings	379	307
	<u>794</u>	<u>556</u>
Total interest income on financial assets not measured at fair value through profit or loss	<u>794</u>	<u>556</u>

**(c) Net Interest expense**

	2018 £'000	2017 £'000
Interest payable and similar expenses	(1,880)	(1,781)
Interest receivable and similar income	<u>794</u>	<u>556</u>
	<u>(1,086)</u>	<u>(1,225)</u>

## NOTES TO THE FINANCIAL STATEMENTS - continued

**10 Tax on profit****(a) Tax expense included in profit or loss**

	2018 £'000	2017 £'000
Current tax:		
UK Corporation tax on income for the period	1,220	834
Adjustments in respect of prior periods	(72)	2
Total current tax	<u>1,148</u>	<u>836</u>
Deferred tax:		
Origination and reversal of timing differences	151	725
Effect of change in corporation tax rates	(24)	(79)
Adjustments in respect of prior periods	(60)	(97)
Total deferred tax charge	<u>67</u>	<u>549</u>
Tax on profit	<u>1,215</u>	<u>1,385</u>

**(b) Tax expense included in other comprehensive income**

	2018 £'000	2017 £'000
Deferred tax:		
Origination and reversal of timing differences	(277)	(132)
Total tax credit included in other comprehensive income	<u>(277)</u>	<u>(132)</u>

**(c) Reconciliation of tax charge**

Tax assessed for the period is lower (2017: higher) than the standard rate of corporation tax in the UK 19.00% (2017: 19.25%). The differences are explained below:

	2018 £'000	2017 £'000
Profit on ordinary activities before tax	<u>6,767</u>	<u>7,137</u>
Current tax at 19.00% (2017: 19.25%)	1,286	1,374
Effects of:		
Expenses not deductible for tax purposes	148	185
Adjustments to tax charge in respect of previous periods	(132)	(95)
Group relief not paid for	(63)	-
Effects of change in tax rate on deferred tax	(24)	(79)
Tax on profit	<u>1,215</u>	<u>1,385</u>

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 10 Income tax - continued

## (d) Tax rate changes

The tax rate for the current period is lower than the prior period due to changes in the UK corporation tax rate which decreased from 23% to 21% from 1 April 2014, and further decreased to 20% from 1 April 2015.

Further changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

11 Intangible assets	Goodwill £'000	Software £'000	Total £'000
<b>At 30 December 2017</b>			
Cost	12,896	295	13,191
Accumulated amortisation and impairment	(8,732)	(288)	(9,020)
<b>Net book amount</b>	<b>4,164</b>	<b>7</b>	<b>4,171</b>
<b>Period ended 29 December 2018</b>			
Opening net book amount	4,164	7	4,171
Additions	-	-	-
Amortisation	(728)	(3)	(731)
Impairment	-	-	-
<b>Closing net book amount</b>	<b>3,436</b>	<b>4</b>	<b>3,440</b>
<b>At 29 December 2018</b>			
Cost	12,896	295	13,191
Accumulated amortisation and impairment	(9,460)	(291)	(9,751)
<b>Net book amount</b>	<b>3,436</b>	<b>4</b>	<b>3,440</b>

## 12 Investments

	Investment in subsidiary undertakings £
At 30 December 2017	276
Addition during the period	-
At 29 December 2018	<b>276</b>

During 2016 the company invested £276 in Ornua Dairy Products Nigeria Limited. Ornua Dairy Products Nigeria Limited is incorporated in Nigeria and is engaged in the packaging and marketing of food and dairy related products. The company holds a 1% shareholding in Ornua Dairy Products Nigeria Limited.

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 13 Tangible assets

	Freehold land and buildings £'000	Plant and machinery £'000	Fixtures and Fittings £'000	Payments on account and assets in course of construction £'000	Motor Vehicles £'000	Total £'000
<b>As at 30 December 2017</b>						
Cost	27,195	29,809	4,327	727	35	62,093
Accumulated depreciation	(8,893)	(20,656)	(2,791)	-	(18)	(32,358)
<b>Net book amount</b>	<b>18,302</b>	<b>9,153</b>	<b>1,536</b>	<b>727</b>	<b>17</b>	<b>29,735</b>
<b>Period ended 29 December 2018</b>						
Opening net book amount	18,302	9,153	1,536	727	17	29,735
Additions at cost	-	-	872	3,770	-	4,642
Disposals at cost	-	(2,315)	(727)	-	-	(3,042)
Accumulated depreciation relating to disposals	-	2,196	-	-	-	2,196
Depreciation	(590)	(1,742)	(459)	-	(12)	(2,803)
Impairment	-	-	-	-	-	-
Transfers	-	3,190	834	(4,024)	-	-
<b>Closing net book amount</b>	<b>17,712</b>	<b>10,482</b>	<b>2,056</b>	<b>473</b>	<b>5</b>	<b>30,728</b>
<b>As at 29 December 2018</b>						
Cost	27,195	30,684	5,306	473	35	63,693
Accumulated depreciation	(9,483)	(20,202)	(3,250)	-	(30)	(32,965)
<b>Net book amount</b>	<b>17,712</b>	<b>10,482</b>	<b>2,056</b>	<b>473</b>	<b>5</b>	<b>30,728</b>

The gross value of land and buildings includes £26,669,000 (2017: £26,669,000) of depreciable assets.

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 14 Inventories

	2018 £'000	2017 £'000
Raw materials and consumables	36,799	19,752
Finished goods and goods for resale	5,088	5,521
	<u>41,887</u>	<u>25,273</u>

There is no significant difference between the replacement cost of finished goods and goods for resale and their carrying amounts.

Inventories are stated after provisions for impairment of £1,053,465 (2017: £624,398).

## 15 Debtors

	2018 £'000	2017 £'000
<i>Due within one year:</i>		
Trade debtors	18,838	16,488
Amounts owed by group undertakings	31,933	36,634
Other debtors	646	805
Prepayments and accrued income	662	559
	<u>52,079</u>	<u>54,486</u>
<i>Due after one year:</i>		
Deferred taxation (note 19)	1,663	1,799
	<u>53,742</u>	<u>56,285</u>

Amounts owed by group undertakings do not attract interest, are unsecured and are repayable on demand.

Trade debtors are stated after provisions for impairment of £20,875 (2017: £26,417). During the period, £5,541 of provisions for impairment were released from (2017: £17,093 utilised against) previously provided for debtors.

## 16 Creditors: Amounts falling due within one year

	2018 £'000	2017 £'000
Trade creditors	25,929	26,498
Amounts owed to group undertakings	76,752	49,772
Other creditors	2,953	3,392
Corporation tax	660	516
Accruals and deferred income	5,380	4,456
Other taxation and social security	540	486
	<u>112,214</u>	<u>85,120</u>

Amounts owed to group undertakings are unsecured, attracting interest between 0% and 1% above LIBOR and are repayable on demand.

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 17 Creditors: Amounts falling due after more than one year

	2018 £'000	2017 £'000
100,000 (2017: 100,000) 7% cumulative preference shares of £1 each	<u>100</u>	<u>100</u>

## 18 Pension liabilities

The company operates both a defined benefit pension scheme and a defined contribution pension scheme.

## (a) Defined contribution scheme

The Adams Foods Limited Stakeholders pension plan was opened on 1 August 2003, and is available to employees joining the company after that date and existing employees who declined membership of the defined benefit scheme. The pension cost for the period represents contributions payable by the company to the scheme and amounted to £548,000 (2017: £457,000). There were no contributions outstanding at the beginning or end of the financial period.

## (b) Defined benefit scheme

Ornua Foods UK Limited operates a defined benefit scheme in the UK which provides both pensions in retirement and death benefits to members. The scheme is participated in by Ornua Foods UK Limited and Ornua Nutrition Ingredients UK Limited. The net defined benefit liability is accounted for in full in the financial statements of Ornua Foods UK Limited. The assets of the scheme are held in trustee administered funds. The scheme was closed to new members on 31 July 2003. Pension benefits are related to the members' final salary at retirement and their length of service.

The last actuarial valuation of the Scheme was carried out as at 31 December 2015. As part of the valuation, a recovery plan was put into place under which the Employer agreed to pay deficit contributions of £300,000 per annum in the period 2017 to 2027 inclusive.

A full valuation of the liabilities has not been carried out as at 29 December 2018. The liabilities of the Scheme have been calculated by updating the results of the actuarial valuation as at 31 December 2015 to allow for the passage of time, the accrual of new benefits, benefits paid out and changes in actuarial assumptions over the period from 31 December 2015 to 29 December 2018.

Employer contributions to the Scheme over 2019 are expected to be at the rate of 17.5% of Pensionable Salaries together with deficit reduction contributions of £300,000. These are subject to change as the company has proposed to close the scheme to future accrual and a consultation with members is currently in progress.

A full actuarial valuation was carried out at 31 December 2015 and projected forward to 29 December 2018 by a qualified independent actuary.

	2018 £'000	2017 £'000
Present value of funded defined benefit obligations	(45,347)	(49,452)
Fair value of plan assets	<u>35,564</u>	<u>38,881</u>
Deficit	(9,783)	(10,571)
Related deferred tax asset	<u>1,663</u>	<u>1,799</u>
Net liability	<u>(8,120)</u>	<u>(8,772)</u>

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 18 Pension liabilities - continued

## (b) Defined benefit scheme - continued

## Reconciliation of scheme assets and liabilities

	Assets £'000	Liabilities £'000	Total £'000
At beginning of period	38,881	(49,452)	(10,571)
Benefits paid	(1,950)	1,950	-
Employer contributions	572	-	572
Member contributions	92	(92)	-
Current service cost	-	(485)	(485)
Interest cost	-	(1,171)	(1,171)
Interest income	918	-	918
Remeasurement gains/(losses)			
- Actuarial gains	-	4,485	4,485
- Return on plan assets excluding interest income	(2,949)	-	(2,949)
Past service cost	-	(582)	(582)
At end of period	<u>35,564</u>	<u>(45,347)</u>	<u>(9,783)</u>

The amount recognised in the profit and loss account is as follows:

	2018 £'000	2017 £'000
Current service cost	485	508
Past service cost	582	-
Scheme administrative costs	-	50
Net interest on the net defined benefit liability	253	287
Total	<u>1,320</u>	<u>845</u>

The expense is recognised in the following line items in the income statement:

	2018 £'000	2017 £'000
Cost of sales	421	413
Administration expenses	64	145
Exceptional items	582	-
Interest payable and similar charges	253	287
	<u>1,320</u>	<u>845</u>

The total amount recognised in the statement of comprehensive income in respect of the actuarial gains and losses is £1,259,000 (2017: £623,000 gain).

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 18 Pension liabilities - continued

## (b) Defined benefit scheme - continued

The fair value of the plan assets and the return on those assets were as follows:

	2018 £'000	2017 £'000
Corporate bonds	12,528	13,068
Diversified growth funds	22,146	25,381
Other	890	432
	<u>35,564</u>	<u>38,881</u>
The actual return on assets over the period was:	<u>(2,031)</u>	<u>1,885</u>

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

	2018	2017
Discount rate	2.80%	2.40%
Future salary increases	2.90%	3.40%
Inflation assumption	3.10%	3.10%
Rate of increase in pensions in payment (CPI 5%)	2.20%	2.20%
Rate of increase in pensions in payment (CPI 2.5%)	<u>1.95%</u>	<u>1.95%</u>

In valuing the liabilities of the pension fund at 29 December 2018, mortality assumptions have been made as indicated below.

The assumptions relating to longevity underlying the pension liabilities at the reporting date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65 year old to live for a number of years as follows:

- Current pensioner aged 65: 22.1 years (male), 24.2 years (female).
- Future retiree upon reaching 65: 23.5 years (male), 25.7 years (female).

The company expects to contribute approximately £0.4 million to its defined benefit plans in the next financial period.



## NOTES TO THE FINANCIAL STATEMENTS - continued

## 19 Deferred taxation

## (i) Deferred tax assets

	2018 £'000	2017 £'000
At beginning of period	1,799	1,882
Charge to the statement of comprehensive income	(136)	(83)
At end of period	<u>1,663</u>	<u>1,799</u>

The deferred tax asset arises on the pension liability.

## (ii) Deferred tax liability

	2018 £'000	2017 £'000
At beginning of period	(1,206)	(606)
Charge to the income statement for the period	(67)	(549)
Deferred tax in respect of pension liabilities	(142)	(51)
At end of period	<u>(1,415)</u>	<u>(1,206)</u>

The elements of the deferred tax liability are as follows:

	2018 £'000	2017 £'000
Difference between accumulated depreciation and amortisation and capital allowances	(1,518)	(1,378)
Other timing differences	103	172
	<u>(1,415)</u>	<u>(1,206)</u>

## 20 Called up share capital

	2018 £'000	2017 £'000
<b>Allotted, called up and fully paid</b>		
17,057,918 (2017: 17,057,918) ordinary shares of £0.10 each	1,706	1,706
100,000 (2017: 100,000) 7% cumulative preference shares of £1 each	100	100
	<u>1,806</u>	<u>1,806</u>
Shares classified as liabilities (note 17)	100	100
Shares classified in shareholders' funds	1,706	1,706
	<u>1,806</u>	<u>1,806</u>

## NOTES TO THE FINANCIAL STATEMENTS - continued

**21 Capital and other commitments**

At the end of the financial year the company had the following capital commitments:

	2018 £'000	2017 £'000
Contracts for future capital expenditure not provided in the financial statements - property, plant and equipment	<u>289</u>	<u>513</u>

The company had the following minimum lease payments under non-cancellable operating leases for each of the following periods:

	2018 £'000	2017 £'000
<b>Payments due:</b>		
Not later than one year	256	203
Later than one year and not later than five years	761	258
Later than five years	<u>24</u>	<u>-</u>
	<u>1,041</u>	<u>461</u>

The company had no other off-balance sheet arrangements.

**22 Related party transactions**

Ornua Foods UK Limited is a 100% subsidiary of Ornua Co-Operative Limited.

The company has availed of the exemption contained in FRS 102 paragraph 33.1A from the requirement to disclose related party transactions with Ornua Co-Operative Limited and its subsidiaries, as they are wholly owned within the Ornua Co-Operative Limited group.

**23 Events after the end of the reporting period**

The directors are not aware of any events since the reporting period end that may impact the financial statements.