Company Registration No. 07472178

Montreal SPV 4 Limited

Report and Consolidated Financial Statements

31 December 2014

Montreal SPV 4 Limited

Report and financial statements 2014

Contents

Directors' report (continued)

The directors have pleasure in presenting their annual report with the audited financial statements for the year ended 31 December 2014.

Principal activities

The principal trading activity of the company during the year is as a holding company for the Montreal SPV 4 group of companies.

On 7 March 2014, both the Mezzanine debt facility of £34.9m and the PIK loan notes of £40.2m were repaid in full and a new Senior C debt facility of £72.0m was entered into. The senior C debt facility is repayable as a bullet payment on the fifth anniversary of the deal completion, namely 7 March 2019. This debt carries interest at LIBOR plus 5.0% and is payable quarterly in arrears.

On 29 August 2014, £20.0m of the unsecured loan notes were repaid and a new Senior C2 debt facility of £15.0m was entered into. The Senior C2 debt facility is repayable as a bullet payment on the 7 March 2019. This debt carries in interest at LIBOR plus 5.0% and is payable quarterly in arrears.

On 29 September 2014, the Group purchased the share capital of Q Smart Life GmbH from one of its distributors, Baho Foods GmbH. The purpose of this acquisition was to maintain customer and contract relationships that were existence in the German market, but trading directly with a team, based in Frankfurt, Germany rather than through the distributor. The company was a shell for the purposes of the acquisition, so only the share capital and the name was acquired. The Company has subsequently changed its name to Quorn Smart Life GmbH.

On 31 December 2014, as part of an exercise of tidying up the balance sheets of the companies within the Quorn banking group, the company capitalised the intercompany loan between Montreal SPV 4 Limited and its direct subsidiary Montreal SPV 5 limited, followed by the payment of a dividend by Marlow Foods Limited to Montreal SPV 5 Limited, which is considered to be commercially beneficial as Montreal SPV 5 Limited is the immediate parent company of the group's principal trading entity, Marlow Foods Limited. The outcome of this transaction is that Montreal SPV 5 Limited no longer has negative reserves. Marlow Foods Limited is anticipated to continue to be profitable and will accumulate further reserves through such profits in the foreseeable future.

Results and dividends

The profit and loss account is set out on page 8 and shows the results for the year. The pre-tax profit for the year was £8,532,000 (2013: profit £1,689,000).

As at 31 December 2014, the group had net assets of £7,464,000 (2013: net liabilities £1,229,000).

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

C Graham
S Davidson
K Brennan
M Lofnes

Future developments

Details of future developments can be found in the Strategic Report on page 3 and form part of this report by cross-reference.

Research and development

Applied research and development work continues to be directed towards the introduction of new and improved products, the application of new technology to reduce unit and operating costs and to improve service to customers. Refer to note 3 of the financial statements for the costs incurred during the year.

Employment policies

The company recognises the importance of encouraging all employees to contribute to the achievements of the company. It has a comprehensive set of employment practices designed to achieve that objective. In particular the

Directors' report

company's equal opportunities policy is designed to create an environment in which all employees are encouraged to develop their individual potential whatever their sex, race, religion, colour, age or disability. The same opportunities for training, career development and promotion are available to all employees including those with disabilities, in so far as that disability does not prevent them from performing their job or any suitable alternative available job. Applications for employment by disabled persons are fully considered bearing in mind the respective aptitudes and abilities of the applicant concerned.

Going concern basis

As at 31 December 2014, the company had net assets of £70,000 (2013: £76,000). Funding is provided to the Company through intercompany loans. This intercompany debt is financed by profits generated by fellow Group subsidiaries and external borrowings. Whilst future trading performance and the availability of external borrowings within the Group is inherently subject to uncertainty the directors, having received written assurances of support from the ultimate parent company, Quorn Foods Limited and assessed the ability of this company to provide this support, have a reasonable and proper expectation that the Company will continue to have adequate resources and that intercompany funds will continue to be available for the foreseeable future. Accordingly the going concern basis has been adopted in these financial statements.

Financial risk management policies

The directors set out in the Strategic Report the financial risk management objectives and policies of the group.

Disclosure of information to the auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information

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

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

Martin Lofnes

Director
M Lofnes

27 April 2015

Montreal SPV 4 Limited

Strategic Report

Principal activities

The principal trading activity of the company during the year is as a holding company for the Montreal SPV 4 group of companies.

The group is involved in the manufacture, distribution and sale of Quorn and Cauldron branded products in the UK, Continental Europe, Australia, South Africa and the United States of America. These activities will continue in the foreseeable future. Quorn, the Quorn logo, Mycoscent and the Cauldron logo are registered trademarks of Marlow Foods Limited, a subsidiary of the company.

Review of the business

Trading

The business has performed extremely well in what remains a challenging trading environment. Overall sales growth was over 7% with turnover of £150.3m (2013: £140.9m). In the UK, the business invested significantly in both consumer and customer marketing activities in order to drive sales growth. In addition, the business achieved distribution gains across a number of customers. Overall sales growth in the UK was exceptional in a food market that continues to be sluggish. The international business generally performed well and saw good growth in Australia, the Nordics and mainland Europe. Performance in the USA improved significantly as the year progressed, including significant distribution gains across a range of customers. The business has continued to see cost inflation in a number of areas. To counter this, significant investment has been made in capital, value engineering and restructuring projects in the supply chain in order to protect margins. Due to the combination of significant sales growth and cost management, the business has continued to grow profitability.

Principal risks and uncertainties

The UK food industry is highly competitive. The business operates in the chilled and frozen sectors in the UK. The Group's brands face competition from both branded products and the own label products of multiple retailers. In international markets, the group also faces competition from a variety of products. In 2014, the UK food market growth rates continued to be low despite improved economic conditions. This has led to increasing demands from customers. In common with other food businesses, cost inflation has continued to a relatively limited extent. The business expects this pressure to continue in 2015 and future years. The business continues to invest in advertising and other consumer focussed marketing activities in order to protect and grow the Quorn brand. The group has also continued to invest to improve the efficiency and reliability of the supply chain and is making investments in capacity where these are required, in particular investments in fermentation capacity. The business has also invested in Research and Development projects which provide increased business protection. During 2014, exchange rates moved unfavourably and this has an impact on sales and profit in the international businesses. The directors believe the Group is well positioned with sufficient differentiation to continue to grow amidst this highly competitive environment.

Financial risk management

The Board and the management pay careful attention to the identification and control of risks associated with the group's activities. As with other aspects of the company, all identified areas of risk are allocated to an Executive Director for monitoring and management.

The group is exposed to a number of risks which can be summarised as follows:

Interest rate risk

The group's borrowings are principally at a margin over LIBOR thus exposing the group to cash flow interest rate risk. The group's policy is to ensure the margin is competitive when compared to other banks and also give consideration to hedging to reduce exposure to this risk.

Financial risk management (continued)

Credit risk

Credit risk arises from exposure to wholesale and retail customers, including outstanding receivables and committed transactions. If customers are independently rated, these ratings are used. If there is no independent rating, credit control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal and external rating review in accordance with set limits agreed with the Board. The utilisation of credit limits is regularly monitored and an exposure to any one individual counterparty is subject to on-going review throughout the year.

Price risk

The prices of raw materials used are affected by among other things, the agricultural policies of the UK Government and of the European Union. A portion of the raw materials used is traded as commodity products, the prices of which are subject to a number of factors that are not in the company's control. Movement in the price levels of these raw materials has in the past had, and may in the future have, a corresponding impact on finished product cost. The prices of packaging materials and utilities are also partly outside the control of the company and changes in prices of these can also have a material impact on finished product prices. Any failure to pass through price increases may adversely affect the Group's financial performance.

Consumer risk

The company is exposed to consumer risk and has to be able to adjust its commercial strategy to be able to compete with new consumer tastes and trends, particularly driven by health and safety scares around food.

Liquidity risk

The group is exposed to liquidity risk as sufficient funds are required to support trading, investing and financing activities. The group regularly monitors the liquidity position to ensure that sufficient funds are available to meet both current and future requirements. Liquidity management includes managing the group's working capital and borrowings. The group's borrowings are the subject of a number of financial covenants which the directors regularly monitor to ensure both current and future compliance.

Currency risk

The Group is exposed to currency risk and as such the Board has a policy of hedging against a maximum of 80% of any forecast exposure to exchange rate fluctuations. Given the adverse movement in exchange rates, in the second half of 2014, the forward contracts for 2015 were put in place prior to the financial year end where rates were favourable to do so. The forward contract requirements are reviewed with every re-forecast undertaken so as to flex up to the last up to date position on surplus/deficit currency positions. These arrangements are approved by the directors on a quarterly basis who monitor to ensure both current and future compliance to exchange rate risk mitigation policy.

Strategic Report (continued)

Key performance indicators

The directors of Quorn Foods Limited manage the performance and progress of the Group against the strategic aims and objectives. They review the achievement of those objectives both through the use of qualitative assessment and quantitative indicators which include non-financial as well as financial measures, and are designated as KPIs. Non-financial KPIs include sales growth, category growth, competitor analysis, distribution analysis, customer penetration and TV and advertising effectiveness. The key KPIs included within the management accounts are around turnover, Trading EBITDA (Earnings before interest, tax, depreciation, amortisation and projects costs) and cash flow compared to budget.

The key financial KPIs for the Group are considered in the table below.

	2014 £m	2013 £m
Turnover	150	141
Trading EBITDA	31	26
Cash (outflow)/ inflow	(11)	6

Outlook

The business continues to invest to grow sales and profit. It expects to see an improving economic environment in 2015 and beyond which will give further opportunities to grow.

Approved by the Board of Directors
and signed on behalf of the Board

Director
M Lofnes
27 April 2015

Montreal SPV 4 Limited

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 these financial statements, the directors are required to:

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

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Montreal SPV 4 Limited

We have audited the financial statements of Montreal SPV 4 Limited for the year ended 31 December 2014 which comprise the consolidated profit and loss account, the statement of consolidated total recognised gains and losses, the consolidated balance sheet, the company balance sheet, the consolidated cash flow statement and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2014 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report and the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Alistair Pritchard FCA

Alistair Pritchard FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Leeds, UK
29 April 2015

Consolidated profit and loss account
For the Year ended 31 December 2014

	Note	2014 £'000	Restated (note 4) 2013 £'000
Turnover	2	150,321	140,941
Cost of sales		(89,850)	(89,798)
Gross profit		60,471	51,143
Distribution costs		(19,736)	(18,939)
Administrative expenses		(21,069)	(20,910)
Operating profit	3	19,666	11,294
Interest receivable and similar income	7	78	72
Interest payable and similar charges	8	(11,212)	(9,677)
Profit on ordinary activities before taxation		8,532	1,689
Taxation on profit on ordinary activities	9	122	(1,354)
Profit for the financial year	21,22	8,654	335

All amounts relate to continuing activities.

There are no material differences between the profits stated above and their historical cost equivalents.

Statement of consolidated total recognised gains and losses
Year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Profit for the financial year	21,22	8,654	335
Exchange adjustments offset in reserves	21,22	39	(68)
Total recognised gains for the year		8,693	267

Consolidated balance sheet
As at 31 December 2014

	Note	2014 £'000	2013 £'000
Fixed assets			
Tangible fixed assets	10	75,949	68,597
Intangible fixed assets	11	100,614	106,646
		176,563	175,243
Current assets			
Stocks	13	21,460	18,423
Debtors	14	84,114	24,741
Cash at bank and in hand		3,535	14,540
		109,109	57,704
Creditors: amounts falling due within one year	15	(155,277)	(153,267)
Net current liabilities		(46,168)	(95,563)
Total assets less current liabilities		130,395	79,680
Creditors: amounts falling due more than one year	16	(118,157)	(75,841)
Provision for liabilities	18	(4,774)	(5,068)
Net assets / (liabilities)		7,464	(1,229)
Capital and reserves			
Called up share capital	20	96	96
Profit and loss account	21	7,368	(1,325)
Total shareholders' funds / (deficit)	22	7,464	(1,229)

The accompanying notes are an integral part of this balance sheet.

These financial statements of Montreal SPV 4 Limited, company number 07472178 were approved by the Board of Directors and authorised for issue on 27 April 2015.

Signed on behalf of the Board of Directors

M Lofnes
Director

Montreal SPV 4 Limited

Company balance sheet
As at 31 December 2014

	Note	2014 £'000	2013 £'000
Fixed assets			
Investments	12	128,292	96
Current assets			
Debtors	14	-	128,196
		-	128,196
Creditors: amounts falling due within one year	15	(128,222)	(128,216)
Net current liabilities		(128,222)	(20)
Net assets		70	76
Capital and reserves			
Called up share capital	20	96	96
Profit and loss account	21	(26)	(20)
Total shareholders' funds	22	70	76

The accompanying notes are an integral part of this balance sheet.

These financial statements of Montreal SPV 4 Limited, company number 07472178 were approved by the Board of Directors and authorised for issue on 27 April 2015.

Signed on behalf of the Board of Directors

Martin Lofnes

M Lofnes
Director

Consolidated cash flow statement
For the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Net cash inflow from operating activities	23	31,251	23,178
Returns on investment and servicing of finance			
Interest received		78	72
Interest paid		(7,522)	(5,772)
Capitalised finance costs on refinancing		(2,700)	-
Net cash outflow from returns on investment and servicing of finance		(10,144)	(5,700)
Acquisitions and disposals			
Purchase of subsidiary undertaking	12	(180)	-
Taxation		(1,479)	(576)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(11,202)	(4,338)
Net cash outflow from capital expenditure and financial investment		(11,202)	(4,338)
Financing			
Repayment of borrowings		(46,076)	(6,400)
Repayment of borrowings on behalf of group entities		(60,214)	-
Increase in borrowings		87,000	-
Net cash outflow from financing		(19,290)	(6,400)
Effect of exchange rate changes on cash		39	
(Decrease)/ increase in net cash	24	(11,005)	6,164

	Note	2014 £'000	2013 £'000
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in net cash		(11,005)	6,164
Repayment of borrowings		46,076	6,400
Increase in borrowings		(87,000)	-
Rolled up/accrued interest		-	(1,575)
Capitalised finance costs on refinancing		2,700	-
Amortisation of finance costs		(3,690)	(2,330)
(Increase)/decrease in net debt	24	(52,919)	8,659

Notes to the financial statements
Year ended 31 December 2014

1. Accounting policies

Montreal SPV 4 Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 27. The nature of the group's operations and its principal activities are set out in the strategic report on page 3.

The financial statements have been prepared on the going concern basis and under the historical cost convention, and are prepared in accordance with applicable accounting standards in the United Kingdom and the Companies Act 2006.

The directors consider that the accounting policies set out below are the most appropriate and have been consistently applied.

Going concern

As at 31 December 2014, the company had net assets of £70,000 (2013: £76,000). Funding is provided to the Company through intercompany loans. This intercompany debt is financed by profits generated by fellow Group subsidiaries and external borrowings. Whilst future trading performance and the availability of external borrowings within the Group is inherently subject to uncertainty the directors, having received written assurances of support from the ultimate parent company, Quorn Foods Limited and assessed the ability of this company to provide this support, have a reasonable and proper expectation that the Company will continue to have adequate resources and that intercompany funds will continue to be available for the foreseeable future. Accordingly the going concern basis has been adopted in these financial statements.

Consolidation

In accordance with s408 of the Companies Act 2006, the parent company does not publish its own profit and loss account. See note 22 for company result.

Subsidiary undertakings are accounted for using acquisition accounting from the effective date of acquisition until the effective date of disposal. Accounting policies have been applied consistently through the group. All intercompany balances and transactions, including unrealised profits arising from intercompany transactions, have been eliminated in full.

Related party disclosures

As the company is a wholly owned subsidiary of Quorn Foods Limited, the company has taken advantage of the exemption contained in FRS 8 "Related Party Disclosures" and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties).

Fixed asset investments

Investments held as fixed assets are stated at cost less any provision required for impairment in their value. An impairment loss is recognised, in the profit and loss account, to the extent that the carrying amount cannot be recovered either by selling the asset or by the discounted future earnings from operating the assets.

Cost of raising finance

The finance costs of raising debt are capitalised and offset against the value of the loan raised. The capitalised cost is then amortised over the period of the loan. During the year, where loans have been repaid in full or in advance of scheduled repayment dates, the respective amortisation has been written off in the year. Following the refinancing, the finance costs of raising the new debt are to be amortised over the year ended 31 December 2015. The cost of the amortisation is charged to the profit and loss account.

Notes to the financial statements (continued)
Year ended 31 December 2014

1. **Accounting policies (continued)**

Tangible fixed assets and depreciation

Tangible fixed assets are included in the balance sheet at cost less depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. All fixed assets are reviewed for impairment when there are indications that carrying value may not be fully recoverable. Subsequent expenditure is added to the carrying value of the asset when it is probable that incremental future economic benefits will transfer to the company. All other subsequent expenditure is expensed in the period it is incurred.

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	40 years
Plant and machinery	-	3 to 35 years
Vehicles	-	4 years

No depreciation is provided on freehold land. No depreciation is provided on assets under construction until brought into use.

Intangible fixed assets

Goodwill arises on the acquisition of subsidiaries and represents the excess of the purchase consideration over the net identifiable assets and liabilities of the subsidiaries.

Amortisation is provided to write off the cost less the estimated residual value of intangible fixed assets over their estimated useful economic lives as follows:

Goodwill - 20 years

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods cost is taken as production cost, which includes an appropriate proportion of attributable overheads. Provision is made where necessary for obsolete, slow moving and defective stocks.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Exchange differences arising from the retranslation of the opening net assets of subsidiaries which operate in currencies other than sterling are taken to reserves, together with the differences arising when the profit and loss accounts are translated at average rates and compared with year end rates.

Operating leases

Costs in respect of operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

Pension costs

The company operates a stakeholder pension scheme through Friends Provident and life assurance cover is also provided. Company contributions to the Friends Provident defined contribution scheme are charged to the profit and loss account as incurred.

Notes to the financial statements (continued)
Year ended 31 December 2014

1. Accounting policies (continued)

Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

Taxation

The charge or credit for taxation is based on the profit or loss for the year and takes into account deferred taxation.

Deferred taxation is provided on all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are temporary differences between profits as computed for tax purposes and profits as stated in the financial statements, which arise because certain items of income and expenditure in the financial statements are dealt with in different years for tax purposes.

Deferred tax is measured at the average rates that are expected to apply in the years in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not discounted.

Deferred tax assets are only recognised to the extent that it is possible that future taxable profit will be available against which the timing difference can be utilised. Their carrying value is reviewed at each balance sheet date on the same basis.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods to customers during the year, net of trade discounts, promotional activities and rebates. Revenue is recognised when stock is delivered to customers for all territories other than Australia where it is recognised when stock leaves the port in the UK.

Financial instruments

The group uses interest rate swaps to manage interest rate risk on its borrowings. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to interest payable as they fall due. Changes in the fair value of the derivatives are not recognised.

The group uses forward contracts to manage its exposure to foreign exchange rate fluctuations. Gains and losses on these contracts are recognised on maturity of the underlying transactions. Changes in the derivatives' fair value are not recognised as shown in note 27.

2. Group turnover

Turnover is entirely attributable to the principal trading activity of the group. An analysis of turnover by geographical market is given below:

	2014 £'000	2013 £'000
By destination		
UK	121,376	110,718
Europe	18,523	19,462
Rest of the world	10,422	10,761
	150,321	140,941

Notes to the financial statements (continued)
Year ended 31 December 2014

3. Group operating profit

	2014 £'000	2013 £'000
Depreciation of owned tangible fixed assets	4,414	3,546
Loss on disposal of fixed assets	33	83
Impairment of fixed assets	-	1,779
Amortisation of goodwill	6,212	6,213
Operating lease costs; plant and machinery	357	260
Operating lease costs; land and buildings	25	58
Research and development expenditure	1,010	901
Net loss on foreign currency translation	312	172
Auditor's remuneration		
Audit services:		
Fees payable to the company's auditor for the audit of the parent company	10	8
Audit of the company's subsidiaries pursuant to legislation	44	36
Audit related assurance services	4	3
Non-audit services:		
Services related to taxation	133	27
Services relating to re-financing transaction	14	37

4. Restated costs

During the year the Directors have reconsidered the classification of certain costs in the profit and loss account to better reflect the nature of the transactions. Accordingly, the profit and loss account for the year ended 31 December 2013 has been restated in line with the presentation for the year ended 31 December 2014. Certain costs have been transferred from cost of sales to operating costs. The impact of the changes are set out below:

	As previously stated £'000	Adjustments £'000	Restated £'000
Cost of sales	91,841	(2,043)	89,798
Distribution costs	18,091	848	18,939
Admin expenses	19,715	1,195	20,910

The net impact of these adjustments on operating profit is £nil

Notes to the financial statements (continued)
Year ended 31 December 2014

5. Employees

Staff costs, including directors employed by the group, consist of:

	2014 £'000	2013 £'000
Wages and salaries	19,665	17,341
Social security costs	1,943	1,695
Pension costs (note 19)	1,197	1,254
	22,805	20,290

The monthly average number of employees, including directors employed by the group, during the year was:

	2014 Number	2013 Number
Production	468	454
Sales and marketing	49	39
Administration	60	62
Research and technical	37	36
	614	591

The company did not employ any staff in the current year (2013: nil).

Costs are stated on a paid basis in the financial year. Within the year ended 31 December 2014 there is a bonus accrued of £2,338,000 (2013:£1,016,000). The bonus is confirmed as payable after the finalisation and signing of the financial statements.

6. Directors' emoluments

	2014 £'000	2013 £'000
Emoluments in respect of qualifying services	701	481
Contributions to defined contribution pension scheme	73	71
	774	552

Retirement benefits are accruing to two directors under a defined contribution pension scheme (2013: two directors).

Costs are stated on a paid basis in the financial year. Within the year ended 31 December 2014 there is a bonus accrued of £505,000 (2013:£366,000). The bonus is confirmed as payable after the finalisation and signing of the financial statements.

Notes to the financial statements (continued)
Year ended 31 December 2014

6. Directors' emoluments (continued)

	2014 £'000	2013 £'000
Highest paid director		
Emoluments in respect of qualifying services	479	317
Contributions to defined contribution pension scheme	54	52
	533	369

Costs are stated on a paid basis in the financial year. Within the year ended 31 December 2014 there is a bonus accrued of £368,000 (2013:£235,000). The bonus is confirmed as payable after the finalisation and signing of the financial statements.

7. Interest receivable and similar income

	2014 £'000	2013 £'000
Interest on short term deposits	78	72

8. Interest payable and similar charges

	2014 £'000	2013 £'000
Interest payable on bank loans	7,554	7,347
Amortisation of capitalised finance costs	3,658	2,330
	11,212	9,677

Notes to the financial statements (continued)
Year ended 31 December 2014

9. Taxation on profit on ordinary activities

Analysis of (credit) / charge in the year

	2014 £'000	2013 £'000
UK corporation tax on profit for the year	1,019	788
Overseas tax	33	78
Prior year adjustment	(880)	-
Total current tax charge	172	866
Origination and reversal of timing differences	(266)	572
Change in tax rate	35	(766)
Prior year adjustment	(63)	682
Total deferred tax (note 18)	(294)	488
Total tax (credit) / charge on profit on ordinary activities	(122)	1,354

Factors affecting tax charge for the year

The tax for the year varies from the standard rate of corporation tax in the UK of 21.49% (2013: 23.25%). The differences are explained below:

	2014 £'000	2013 £'000
Profit on ordinary activities before tax	8,532	1,689
Profit on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 21.49% (2013: 23.25%)	1,834	392
Net expenses not deductible for corporation tax purposes	1,512	(3,003)
Transfer pricing adjustments	(1,465)	-
Research and development relief	-	(43)
Group relief surrendered	(334)	3,432
Capital allowances in excess of depreciation	(907)	(575)
Other timing differences	1	3
Losses carried forward	401	585
Tax payable at higher rates overseas	10	75
Prior year adjustment	(880)	-
Total current tax charge	172	866

Notes to the financial statements (continued)
Year ended 31 December 2014

9. Taxation on profit on ordinary activities (continued)

Factors affecting future tax charges

The main rate of corporation tax reduces to 20% from 1 April 2015. At the balance sheet date these rates have been substantively enacted in tax legislation and deferred tax balances have been calculated with reference to these rates. The government has not indicated any further reductions on these rates. The group has an unrecognised deferred tax asset of £nil (2013: £836,000) relating to unutilised losses.

10. Tangible fixed assets

	Freehold land and buildings £'000	Plant, machinery and vehicles £'000	Assets in course of construction £'000	Total £'000
Cost				
At 1 January 2014	17,734	123,158	22,650	163,542
Additions	-	-	11,799	11,799
Transfers	169	4,257	(4,426)	-
Disposals	-	(33)	-	(33)
At 31 December 2014	17,903	127,382	30,023	175,308
Depreciation				
At 1 January 2014	7,261	85,905	1,779	94,945
Charge for the period	426	3,988	-	4,414
Disposals	-	-	-	-
At 31 December 2014	7,687	89,893	1,779	99,359
Net book value				
31 December 2014	10,216	37,489	28,244	75,949
31 December 2013	10,473	37,253	20,871	68,597

Freehold land and buildings

The net book value of freehold land and buildings includes £3,100,000 of land not being depreciated (2013: £3,100,000).

Notes to the financial statements (continued)
Year ended 31 December 2014

11. Intangible fixed assets

Goodwill

	£'000
Cost	
At 1 January 2014	124,248
Additions	180
At 31 December 2014	124,428
Amortisation	
At 1 January 2014	17,602
Charge for the year	6,212
At 31 December 2014	23,814
Net book value	
At 31 December 2014	100,614
At 31 December 2013	106,646

The Goodwill addition in the year is due to the acquisition of Quorn Smart Life GmBH (note 12).

12. Investments

Investments in subsidiaries

	£'000
Cost and net book value	
As at 1 January 2014	96
Additions	128,196
As at 31 December 2014	128,292

The company holds 100% of the share capital of Montreal SPV 5 Limited, a company registered in England and Wales. The principal activity of this company is that of a holding company. During the period the company capitalised the intercompany borrowings with Montreal SPV 5 Limited. The capitalisation resulted in Montreal SPV 4 Limited acquiring 1 ordinary share in Montreal SPV 5 at a premium of £128,196,000.

The directors believe that the carrying value of the investments is supported by the present value of future cash flows expected to be generated.

The company indirectly holds 100% of the ordinary share capital of the following companies:

Name of company	Nature of business	Country of incorporation
Marlow Foods Limited	Distributor of Quorn products	England
Quorn Foods Inc.	Distributor of Quorn products	USA
Cauldron Foods Limited	Non trading	England
Quorn Smart Life GmbH	Distributor of Quorn products	Germany

12. Investments (continued)

Notes to the financial statements (continued)
Year ended 31 December 2014

The Group acquired 100% of the ordinary share capital of Quorn Smart Life GmbH on the 29 September 2014 for cash consideration of £20,000. Transaction costs of £160,000 directly attributable to the acquisition were also incurred and included within the cost of investment. Net assets acquired amounted to nil, as such upon consolidation goodwill of £180,000 has been recognised.

From the date of acquisition to 31 December 2014, the acquisition contributed £295,000 to turnover, and a profit of £106,000 to profit before taxation. Further acquisition related disclosures have not been made on the basis that the subsidiary is not material to the accounts.

13. Stocks

	2014 £'000	2013 £'000
Raw materials and consumables	4,924	4,831
Work in progress	5,452	4,992
Finished goods	11,084	8,600
	21,460	18,423

There is no material difference between the balance sheet value of stocks and their replacement cost.

14. Debtors

	2014 £'000	2013 £'000
Group		
Trade debtors	20,492	22,554
Corporation tax debtor	1,434	-
Other debtors	908	831
Prepayments and accrued income	1,241	1,356
Amounts owed by group undertakings	60,039	-
	84,114	24,741

	2014 £'000	2013 £'000
Company		
Amounts owed by subsidiary undertakings	-	128,196

Amounts owed by subsidiary undertakings are unsecured and payable on demand. No interest is chargeable.

15. Creditor: amounts falling due within one year

Group	2014 £'000	2013 £'000
Bank loans (note 17)	-	402
Trade creditors	9,507	7,835
Amounts owed to group undertakings	128,218	128,423
Corporation tax	-	23
Tax and social security	510	489
Other creditors	1,748	1,151
Accruals and deferred income	15,294	14,944
	155,277	153,267

Notes to the financial statements (continued)
Year ended 31 December 2014

Bank loans above are shown net of £nil (2013: £2,244,000) capitalised finance costs which are being amortised on an effective rate methodology over a period of 4 years.

During the year, where loans have been repaid in full or in advance of scheduled repayment dates, the respective amortisation has been written off in the year. Following the refinancing, the finance costs of raising the new debt are to be amortised over the year ended 31 December 2015.

	2014 £'000	2013 £'000
Company		
Amounts owed to subsidiary undertakings	128,222	128,216
	128,222	128,216

Amounts owed to subsidiary undertakings are unsecured and repayable on demand. No interest is chargeable on this amount.

16. Creditor: amounts falling due after more than one year

	2014 Loans outstanding £'000	2014 Capitalised cost of raising finance £'000	2014 Net amount payable £'000	2013 Loans outstanding £'000	2013 Capitalised cost of raising finance £'000	2013 Net amount payable £'000
Loans due in more than one year						
Senior A debt	-	-	-	5,954	(30)	5,924
Senior B debt	32,800	(128)	32,672	36,000	(184)	35,816
Senior C debt	72,000	(1,397)	70,603			
Senior C2 debt	15,000	(118)	14,882			
Mezzanine facility	-	-	-	34,276	(175)	34,101
	119,800	(1,643)	118,157	76,230	(389)	75,841

The bank loans and mezzanine facility are shown net of capitalised finance costs of £1,643,000 (2013: £389,000) which are being amortised on an effective rate methodology over a period of 4 years

During the year, where loans have been repaid in full or in advance of scheduled repayment dates, the respective amortisation has been written off in the year. Following the refinancing, the finance costs of raising the new debt are to be amortised over the year ended 31 December 2015.

17. Loans and other borrowings

	2014 £'000	2013 £'000
Senior A debt	-	8,600
Senior B debt	32,800	36,000
Senior C debt	72,000	-
Senior C2 debt	15,000	-
Mezzanine facility	-	34,276
	119,800	78,876

Notes to the financial statements (continued)
Year ended 31 December 2014

Maturity of financial liabilities	2014 £'000	2013 £'000
In one year or less, or on demand	-	2,646
In more than one year, but not more than two years	-	2,646
In more than two years, but not more than five years	119,800	39,308
In more than five years	-	34,276
	119,800	78,876

Notes to the financial statements (continued)
Year ended 31 December 2014

17. Loans and other borrowings (continued)

The senior A and B facilities and the Mezzanine debt were entered into as part of the acquisition of Marlow Foods Limited on 7 March 2011 and its new corporate structure, with its ultimate holding party, Quorn Foods Limited.

The senior A debt facility is repayable at varying amounts on fixed dates up to the sixth anniversary of the deal completion, namely 7 March 2017. During the year this debt carried interest at LIBOR plus 4.5% and is payable quarterly in arrears on the calendar quarter end dates. Following the re-financing the interest on the outstanding debt was reduced to LIBOR plus 4% with effect from 8 March 2014. The debt was repaid early and in full on 31 December 2014.

The senior B debt facility is repayable as a bullet payment on the seventh anniversary of the deal completion, namely 7 March 2018. During the year this debt carried interest at LIBOR plus 5.0% and is payable quarterly in arrears on the calendar quarter end dates. Following the re-financing the interest on the outstanding debt was reduced to LIBOR plus 4.5% with effect from 8 March 2014. A capital repayment of £3.2m was paid on 31 December 2014.

The mezzanine debt facility was repayable as a bullet payment on the sixth anniversary of the deal completion, namely 7 March 2017. During the year this debt carried interest at LIBOR plus 5.0% and was payable on a quarterly basis in arrears on the calendar quarter end dates. An additional charge of 4.75% was accrued on a quarterly basis in arrears on the calendar quarter end dates but was capitalised and rolled up into the outstanding capital balance on the mezzanine facility. The mezzanine facility was repaid in full as part of the first refinance.

In order to hedge against the risk of variable interest rate movements, the company has entered into interest rate swap agreements with HBSC Bank for a value of £42,520,428 (2013: £58,543,743) to coincide with the interest payments on the remaining debt. Interest is payable on these swaps at a fixed rate of 2.556% with an additional variable floating rate cost. The fair value of this financial instrument is £855 (liability) at 31 December 2014 (2013: £4,617 liability). The swap expires March 2015.

On 7 March 2014, both the Mezzanine debt facility of £34.9m and the PIK loan notes of £40.2m were repaid in full and a new Senior C debt facility of £72.0m was entered into. The senior C debt facility is repayable as a bullet payment on the fifth anniversary of the deal completion, namely 7 March 2019. This debt carries interest at LIBOR plus 5.0% and is payable quarterly in arrears.

On 29 August 2014, £20.0m of unsecured loan notes were repaid and a new Senior C2 debt facility of £15.0m was entered into. The Senior C2 debt facility is repayable as a bullet payment on the 7 March 2019. This debt carries in interest at LIBOR plus 5.0% and is payable quarterly in arrears.

18. Provision for liabilities

Deferred tax liability	**£'000**
At 31 December 2013	5,068
Credit to the profit and loss account	(294)
At 31 December 2014	4,774

The provision for deferred taxation consists of the tax effect of timing differences in respect of the excess of capital allowances over depreciation charged and losses carried forward.

19. Pension commitments

The company operates a stakeholder pension scheme through Friends Provident which is a defined contribution scheme. Life assurance cover is also provided. Company pension scheme contributions of £1,197,000 (2013: £1,254,000) have been charged to the profit and loss account as incurred. The stakeholder pension scheme is individual to the employee and is portable.

Notes to the financial statements (continued)
Year ended 31 December 2014

20. Called up share capital

	2014 £'000	2013 £'000
Allotted, called up and fully paid		
96,179 ordinary shares of £1 each	96	96

21. Reserves

Group

	Profit and loss account £'000
At 1 January 2014	(1,325)
Profit for the financial year	8,654
Exchange adjustments offset in reserves	39
At 31 December 2014	7,368

Company

	Profit and loss account £'000
At 1 January 2014	(20)
Loss for the financial year	(6)
At 31 December 2014	(26)

22. Reconciliation of movements in total shareholder's funds / (deficit)

Group	2014 £'000	2013 £'000
Profit for the financial year	8,654	335
Exchange adjustments offset in reserves	39	(68)
Net decrease to shareholder's deficit	8,693	267
Opening shareholder's deficit	(1,229)	(1,496)
Closing shareholder's funds / (deficit)	7,464	(1,229)

Notes to the financial statements (continued)
Year ended 31 December 2014

22. Reconciliation of movements in total shareholder's funds/ (deficits) (continued)

Company	2014 £'000	2013 £'000
Loss for the financial year	(6)	(8)
Net decrease in shareholder's funds	(6)	(8)
Opening shareholder's funds	76	84
Closing shareholder's funds	70	76

23. Reconciliation of operating profit to net cash inflow from operating activities

	2014 £'000	2013 £'000
Cash flow from operating activities		
Operating profit	19,666	11,274
Depreciation charge	4,414	3,546
Impairment charge	-	1,779
Loss on disposal of fixed assets	33	83
Goodwill amortisation	6,212	6,213
(Increase) / decrease in stocks	(3,037)	815
Decrease / (increase) in debtors	2,275	(2,503)
Increase in creditors	1,688	1,971
	31,251	23,178

24. Analysis of change in net debt

	At 1 January 2014 £'000	Cash flow £'000	Non cash changes £'000	At 31 December 2014 £'000
Cash in hand and at bank	14,540	(11,005)	-	3,535
Debt due within one year	(402)	2,646	(2,244)	-
Debt due after one year	(75,841)	(40,870)	(1,446)	(118,157)
Net debt	(61,703)	(49,229)	(3,690)	(114,622)

25. Capital commitments

	2014 £'000	2013 £'000
Contracted but not provided for	4,051	616

Notes to the financial statements (continued)
Year ended 31 December 2014

26. Commitments under operating leases

As at 31 December 2014, the company had annual commitments under non-cancellable operating leases for assets expiring as follows:

	2014		2013	
	Land and buildings £'000	Plant and machinery £'000	Land and buildings £'000	Plant and machinery £'000
Operating leases which expire:				
Within one year	9	55	-	12
In two to five years	36	684	58	119
Over 5 years	-	-	-	-

27. Financial instruments

The Group enters into forward currency contracts to manage currency risk arising from its operations.

The notional principal amounts of the outstanding forward foreign currency contracts held for trading at 31 December 2014, and its comparatives, were as follows;

	2014	2013
Sell USD	3,825,000	600,000
Buy EUR	4,546,000	1,200,000
Sell AUD	3,373,000	-
Sell CHF	5,456,000	-
Sell SEK	56,249,000	-
Sell ZAR	2,221,000	-

The net fair value of these contracts at 31 December 2014 was £9,231,698 (2013: £636,766)

28. Contingent liabilities

The company together with certain other fellow subsidiaries has jointly and severally agreed to the punctual performance of the borrower or guarantor's obligations under the Facilities Agreement dated 24 January 2012, as signed with the group's lenders. The company has secured all monies due to the beneficiaries of this agreement with a debenture over the undertaking and all of the assets and property and assets of the group's businesses in favour of HSBC Bank plc, in its capacity as security agent for the beneficiaries. The amount of the group's obligations under guarantee as at 31 December 2014 is £118,126,000 (2013: £41,954,000).

29. Ultimate parent company

Quorn Foods Limited is the company's ultimate parent company, while Exponent Private Equity Partners, II LP is the ultimate controlling party. Quorn Foods Limited is the parent of the largest group to consolidate these financial statements.

The Company's immediate parent company is Montreal SPV 3 Limited.

Consolidated financial statements of Quorn Foods Limited are available from Station Road, Stokesley, North Yorkshire, TS9 7AB.