CREDITON DAIRY LIMITED

FINANCIAL STATEMENTS

For the 52 weeks ended 2 January 2021

Company number 08490730

CREDITON DAIRY LIMITED

FINANCIAL STATEMENTS
For the 52 weeks ended 2 January 2021

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CREDITON DAIRY LIMITED

DIRECTORS AND ADVISORS
For the 52 weeks ended 2 January 2021

Company Number:	08490730
Registered Office:	Church Lane Crediton Devon EX17 2AH
Directors:	Tim Smiddy Neil Kennedy
Company Secretary:	Christopher Hume
Bankers:	Lloyds Banking Group Lloyds Commercial Finance
Solicitors:	Michelmores LLP
Auditor:	PKF Francis Clark Exeter

Principal activities and business review

The company's principal activity is the manufacture of dairy drinks for sale into the retail multiple, convenience and wholesale channels.

A stable dairy market environment

Dairy markets had a another relatively stable year in 2020 with UK milk prices remaining relatively flat throughout the year despite the twin challenges posed by the Covid-19 Pandemic and Brexit. The returns from milk fractions which make up whole milk had a year of contrasting fortunes. Butterfat accounted for only 47% with skim milk accounting for 53% of the value of milk, on average in 2020. This compared to 53% (butterfat) and 47% (skim milk) in the previous year. 2020 was the first year since the cessation of EU Milk quota's in 2015 that Butterfat accounted for less than half of the value of milk. Butter prices averaged £2,950 per tonne in 2020 (down 12% on 2019). Butter prices weakened to £2,390 per tonne in April and recovered post Lockdown to peak at £3,180 per tonne in September. In contrast, protein prices had another strong year, with Skim Milk Powder (SMP) prices averaging £1,963 per tonne across the year which was 6% higher than 2019 prices. SMP prices peaked at £2,220 per tonne at the beginning of the year and fell to £1,730 per tonne in April during the Covid-19 Lockdown before recovering to £1,970 per tonne by the year end.

Bulk Cream prices, which are of significant importance to Crediton Dairy's financial performance, had a rollercoaster year in 2020 and were weak throughout the year compared to historical levels. In the first half of 2020, cream prices crashed to £900 per tonne as the UK entered lockdown during the Covid-19 pandemic. Cream prices recovered in the second half to peak at £1,540/tonne in October before falling 25% again to £1,150 per tonne in December due to concerns about export difficulties in the New Year once the UK had left the EU customs union. Overall, cream prices were 13% lower in 2020 (£1,316 per tonne) compared to 2019 (£1,504 per tonne).

Milk supply in the UK increased marginally again by 15ml (0.1%) to 15 billion litres in 2020. First half, milk volumes were down on the previous year by 45ml (0.6%) as milk processors encouraged farmers to scale back production to avoid surpluses over the Spring peak after we entered the Covid-19 Lockdown. Supply growth recovered in the second half, being 60ml (0.8%) above the prior year due to favourable weather conditions and stable milk prices paid by most processors. 2020 milk volumes were some 0.6 billion litres (4.4%) ahead of the UK's 10-year production average of 14.4 billion litres per annum.

A dedicated group of local farmer suppliers

Crediton Dairy continued to recruit additional farmers throughout 2020 to meet the growing needs of the business. At the year-end, 70 farmers were supplying Crediton Dairy, nearly all of whom farm within 30 miles of the dairy. This dedicated group of Devon based dairy farmers produce an annualised volume of 113 million litres of high quality, farm-assured milk. The business continues to be largely self-sufficient in the supply of raw milk as recruitment of new farmer suppliers in addition to the growth of existing suppliers more than offset the loss of a small number of suppliers who have either exited the industry due to retirement or transferred supply to another processor.

Given the volatility of dairy markets in recent years, Crediton Dairy set up a second Fixed Milk Price Scheme in October 2019, which is backed by sales of finished product to a major retail customer. Farmers can receive a fixed price of 28 pence per litre for two years for up to 50% of their Base Milk Volume. A number of our larger farmer suppliers took up the option to fix the price for a volume of their milk. Crediton Dairy will offer another Fixed Milk Price Scheme to its farmer suppliers in October 2021 when the current scheme expires.

In 2020, the average UK Defra Farm Gate Milk Price reduced by 0.3 pence per litre (ppl) to 28.6ppl (down 1.0%). In line with our commitment to supporting our farmer suppliers, Crediton Dairy's milk price remained highly competitive throughout the year and was consistently the highest of the non–aligned liquid milk prices and in the upper quartile of the published UK milk price league tables.

A year of significant volume growth and continued mix improvement

Kantar Worldpanel reported that the liquid milk market, which includes both dairy and dairy-free drinks, saw increased spend of 8.8% in 2020. Volumes increased by 6.4% to 5.8 billion litres with price increases and favourable mix accounting for the remaining 2.4% of the increase in spend. As a consequence of more in-home consumption of food and drink during the Covid pandemic, for the first time in several years, fresh milk largely held its market share with a 7.2% increase in value and a 5.5% increase in volume. Sales volumes of value-added milk drinks continued to grow strongly in 2020 with lactose free milk increasing by 15.7% and iced coffee drinks increasing by 18.8%. The flavoured milk market had a difficult year, declining in volume terms by 3.5%, mainly due to a reduction in 'on the go' impulse sales.

Crediton Dairy saw a year of very strong volume growth across all product categories. Its core extended shelf-life dairy drinks business experienced significant growth due to the of launch of 1 litre iced coffee into several retailers, extended distribution of both Moo branded and retailer own label lactose free milk and continued growth of own label flavoured milk. The iced coffee drinks business continued to grow strongly in 2020 (+32%) driven mainly by the Arctic iced coffee brand, due to the listing of 1 litre 'take home' SKU's and wider store distribution of the 330ml impulse packs.

Kantar Worldpanel reported that the UK long life milk market grew by 18.8% in volume. The dairy segment of the long-life milk market had a very strong year growing in volume by 15.1%, which is a remarkable outcome given this market segment has been in decline for many years. The strong volume growth has been driven by an increasing consumer appetite for purchasing more longer life products as frequency of grocery shopping reduced during the Covid-19 induced lockdowns. Crediton Dairy's long life milk business grew marginally ahead of the market in 2020, assisted by the introduction of new pack formats in two of our larger retail customers.

Strong financial performance

Financially, against the backdrop of relatively stable UK dairy market conditions despite the supply chain disruption caused by the Covid-19 pandemic and Brexit, the business performed well. Turnover grew by £12.8 million (17.2%), driven primarily by higher long life milk volumes (due largely to the Covid-19 pandemic) and improved product mix (with higher sales of added value dairy drinks led in particular by increased sales of Crediton Dairy's brands, Artic Iced Coffee and Moo Milk as well as significant growth in sales of lactose free milk), partially offset by lower bulk cream prices. Profit margins were restored to normal levels in 2020 after a poor year in 2019 which was impacted by disruption during the construction of a new filling hall and warehouse. The key factors in the restoration of profitability were higher sales volumes, improved product mix, lower energy & fuel costs and firm overhead cost control given the significantly higher production volumes.

The key highlights were as follows:
- Turnover was £87.3 million in 2020, which increased by 17.2% from £74.5 million in the prior year
- Profit before tax was £9.8 million which is up from £4.5 million in the prior year
- Capital Investment of £7.4 million which takes the cumulative investment since the MBO to £30 million
- Net cash surplus at year end of £2.4 million (which included a cash surplus of £4.9m offset by loan notes of £0.2 million and a finance lease of £2.3 million) was up from £1.7 million at the previous year end
- The book value of Net Assets grew by £5.9 million (23.8%) from £24.8 million in 2019 to £30.7 million in 2020

Capital investment programme

Crediton Dairy undertook significant capital investment of £7.4 million in 2020 to increase both capacity and capability in the added value dairy drinks business and an associated scaling up of site utility services.

Having invested £30 million since the MBO in 2013, Crediton Dairy plans further investment of £4m over the next year to continue to increase both capacity and capability at the dairy as well as further upgrading of the site's utility services to improve efficiency and reduce our carbon footprint. This ongoing capital investment will support the delivery of our strategy of being a highly efficient and flexible added value dairy drinks business.

Arctic Iced Coffee brand

Crediton Dairy continued to invest in its Arctic iced coffee brand in 2020 as part of a committed multi-year brand investment programme. The focus of the marketing campaign in 2020 had to be changed from an experiential to a digital focus due to the Covid-19 pandemic. Arctic Iced Coffee's first TV ad aired on Channel 4 in August under the "Extreme...ly Refreshing" campaign which coincided with the launch of the one litre 'take home' pack format. The retail sales value of the brand increased by £3.2 million (+41%) to £10.8 million in 2020 despite iced coffee consumption falling during the pandemic. The new one litre format was awarded the top product launch in the dairy drinks' category for 2020 by "The Grocer".

Brexit

Since the United Kingdom voted to leave the European Union in June 2016, we have been actively managing the controllable factors in our EU trade exposure which includes:
- Hedging our euro currency exposure
- Increasing the planned lead time for sourcing capital equipment from EU suppliers
- Increasing the stock holding of imported packaging, ingredients and maintenance spares
- Reducing our reliance on exports of dairy drinks and bulk cream

There has been no material impact on Crediton Dairy to date of the United Kingdom's exit from the European Union and cessation of being a member of the Customs Union.

An ongoing concern would be the UK concluding Free Trade Agreements with major low-cost dairy exporting countries which could result in dairy products produced to lower welfare standards being imported into the UK and undermining quality and pricing in the UK market.

CREDITON DAIRY LIMITED

STRATEGIC REPORT

Looking forward

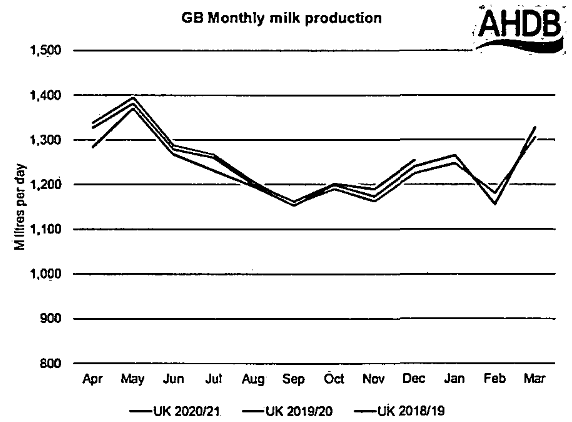
European Dairy markets have remained strong in early 2021 due to strong consumer demand for dairy products and the strength of global markets despite the UK exiting the EU customs union on 31st December 2020 and ongoing restrictions due to the global Covid-19 pandemic. UK Milk prices have remained stable with manufacturing milk prices continuing to be strong and only a small level of weakness in liquid milk contracts as a consequence of weaker cream prices. UK bulk cream prices crashed to below £1,000 per tonne just prior to the UK ceasing to be a member of the EU customs union. However, cream prices recovered strongly in the early months of 2021. Maintaining stability in the UK dairy market in 2021 will be heavily influenced by the level of milk production during the spring peak, growth in global milk supply and the ongoing level of demand for dairy products post the Covid-19 pandemic.

Despite the ongoing Covid-19 related uncertainty, Crediton Dairy will continue to invest in new capacity and capability, new product development and its Arctic Iced Coffee and Moo milk brands. The business is increasingly positive about the long-term prospects for the dairy sector and the role that a focussed, added value, West Country business can play within it.

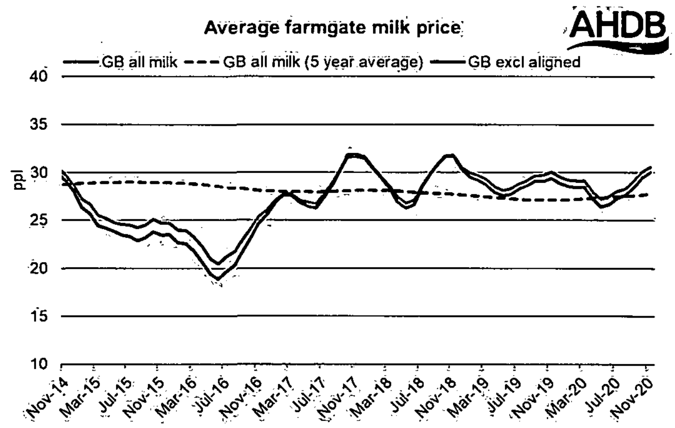
Performance indicators

Crediton Dairy considers the following economic indicators as key influences on business performance:

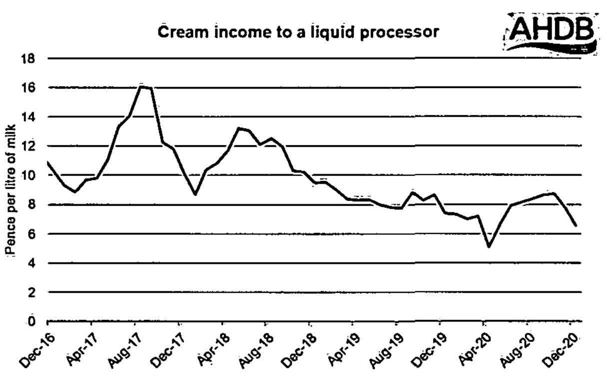
- GB milk production
- DEFRA farm-gate average milk price
- Bulk cream income to a liquid processor
- UK wholesale dairy product prices



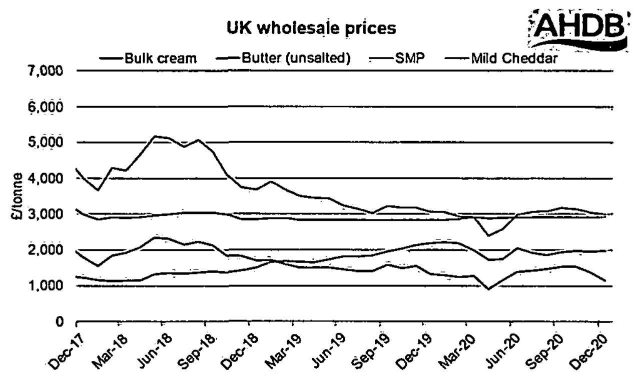
Source: AHDB, Daera, Defra, RPA



Source: Defra, RESAS, DAERA, AHDB



Source: AHDB



Source: AHDB

Principal risks

In the opinion of the Directors, the principal risks facing the company are as follows:

- Direct Milk Supply
- Bulk Cream Returns
- Loss of Own Label Contracts
- Brexit
- Coronavirus

Crediton Dairy recruited its own direct milk supply and reached self-sufficiency in 2016. Crediton Dairy has a close working relationship with its supplying farmers. The business aims to retain its suppliers over the long term via a combination of offering a simple and transparent milk supply contract, early payment facilities, paying a competitive milk price and ongoing farmer engagement.

Bulk cream returns have a significant impact on the financial performance of Crediton Dairy as it produces a significant quantity of bulk cream as a by-product of long life and extended shelf-life milk production. Crediton Dairy seeks to add value and smooth out the volatility of bulk cream returns by processing more of its bulk cream into packed cream for the foodservice market. Crediton Dairy supplies bulk cream to several other dairy processors and exports some to the EU to ensure it always has a route to market for surplus bulk cream over and above its own internal requirements.

Crediton Dairy supplies a number of UK retailers with own label products. Loss of a significant own label contract would have a material impact on the financial performance of the business. The company tries to ensure it retains all of its own label contracts by supplying at competitive prices, ongoing investment in its Crediton site to ensure we operate a modern efficient manufacturing facility which remains cost competitive, investment in new product development, deliver consistently good customer service levels and continuous improvement in product quality.

Following the United Kingdom's exit from the European Union in January 2020 and ceasing to be a part of the customs union in December 2020, Crediton Dairy has taken appropriate steps to protect its exports of dairy drinks and bulk cream to the EU and imports of supplies of packaging, ingredients and capital equipment from the EU. Crediton Dairy continues to export dairy drinks to key retail customers as well as exporting some bulk cream. Stock holdings of imported packaging, ingredients and maintenance spares have been increased to give the business has some resilience against the longer lead times as a consequence of customs clearance at seaports and airports. Crediton Dairy continues to buy forward its euro currency requirements to effectively fix the cost of imported supplies. Crediton Dairy has invested in new capacity and capability in both long life and extended shelf-life dairy drinks to facilitate the substitution of imports if the UK needs to become more self-sufficient in supply of dairy products.

Whilst the ongoing impact of the Covid-19 coronavirus pandemic continues to cause significant deterioration in economic conditions and an increase in economic uncertainty, Crediton Dairy has not suffered a significant negative impact. Demand has increased for long-life milk as consumers store larger quantities of ambient foods in their homes and reduce the frequency of shopping trips to grocery stores.

Crediton Dairy has, from the start of the Covid-19 pandemic, assembled a steering group that meets on a regular basis, to monitor the impact of the pandemic on the welfare of its staff and the operation of its business. Crediton Dairy has put sanitisation and security procedures in place to keep its staff and contractors safe, whilst working at the manufacturing site or administration offices. We have made all our locations Covid secure, have as many people as possible working from home and put contingency plans in place to ensure we are able to continue to supply our customers should the business be affected by a Covid outbreak.

Aligning our long-term strategy with the needs and expectations of our stakeholders

In line with our duties under s172 of the Companies Act 2006, the Directors and the senior management team make decisions with a longer-term view in mind and the likely consequences on all stakeholders of the decisions and actions they take. Where possible, decisions are carefully discussed, often with key personnel within the business and are therefore fully understood and supported when taken. The key decisions taken during the year related to the Covid-19 pandemic, keeping our colleagues safe as a result, satisfying customer demand, whilst continuing our capital investment programme and launching new products. Details of how we engage with our key stakeholders can be found below and throughout the Strategic report. More detail on the capital investment programme can be found in the strategic report under the heading Capital investment programme.

Colleagues
Our people are key to the success of the business individually and as a team. There are many ways we engage with them and listen to them including staff surveys, employee forums, face-to-face briefings, newsletters and one-to-one meetings. One of the key focuses this year has been on their health and well-being, and career development opportunities in the longer term. At least once a year we engage an external partner to facilitate a detailed survey on the views and opinions of all colleagues. Given all of the added Covid driven uncertainty over the last year, we also felt it important that our people receive regular updates on business performance and our approach to operating in a pandemic. The feedback we receive via all our methods of colleague engagement is important to longer term success. Further information on the decisions taken to safeguard our staff during the Covid 19 pandemic are described within the strategic report above.

Farmers
As suppliers of our key raw material for the business, our supplying farmers' opinions are important to us. We have ongoing open dialogue with them individually and twice-yearly meetings of the full supply group to update them on dairy markets, the financial performance of the business, our business strategy, capital investment plans and the future outlook for milk prices. Their views are considered as part of our decision-making process on milk supply volumes and prices.

Customers and suppliers
We build strong lasting relationships with customers and suppliers. We spend considerable time with our customers understanding their needs and views and listen to how we can improve our range of products offered and the service we provide to them. We have made considerable investment in our operations at Crediton over the last two years to be able to offer new products, in exciting new packaging formats over the long term. We engage regularly with our suppliers both formally and informally to discuss supply, product development and sustainability. These relationships are important and their views are considered in the decision-making process.

New Products
During the year, Crediton Dairy launched a new one litre 'take home' format of its Artic Iced Coffee brand into a number of major retailers. The new larger variant was launched in response to shopper demand as in home consumption of iced coffee drinks increased during the Covid-19 lockdowns.

Energy and Carbon Reporting

Crediton Dairy is conscious of the impact its energy use has on the climate. We have engaged with an organisation who is a global resource partner of the Climate Neutral Now Initiative which was launched by the United Nations Climate Change Group. We will use their advice and support in the future to help reduce our greenhouse gas emissions.

In the past year we have made significant investments to improve energy efficiency and become more environmentally sustainable. Some of the projects completed are as follows:

- New air compressors
- New refrigeration systems
- Processing plant upgrades
- Replacement by our haulier of milk tankers used to collect milk ex farm with new fuel-efficient trucks
- Review of waste management controls
- Use of bio-based (rather than oil-based) plastic in closures used on our 330ml Arctic brand cartons

	Gas	Electricity	Diesel & Petrol	Total
	(kwh)	(kwh)	(kwh)	(kwh)
Consumption	29,469,104	8,935,451	27,458	38,432,013
CO2 (KG)	5,418,484	2,083,211	7,078	7,508,773
CO2 (KG) for £1m Turnover	62,067	23,863	81	86,011

The consumption data has been calculated from the respective electricity and gas meter readings and from records of petrol and diesel used by the company operated vehicles. The consumption has been converted into CO_2 (kg) using the published 'Greenhouse gas reporting: conversion factors 2020'. The CO_2 (kg) per £1 million of turnover has been calculated using the turnover reported in the accounts at year end.

Financial risk management objectives and policies

The principal financial risks faced by the company are liquidity, foreign exchange and credit risks.

Liquidity risk is managed by monitoring its cash flow on a weekly basis. The company has appropriate cash and banking facilities in place to meet its current and forecasted funding needs.

There is a material exposure to the euro currency as a significant proportion of the business' requirements for packaging, ingredients and capital equipment is purchased in euros. The company policy is to hedge this euro exposure as required with forward exchange contracts.

Credit risk is managed by carrying out credit checks on new customers before commencement of supply and closely monitoring the payment trends of existing customers. Credit terms are regularly reviewed and are agreed based upon the financial strength and payment record of current and prospective customers. Procedures are in place to limit the supply of dairy products to customers who are not paying in accordance with agreed credit terms.

Compliance with company policies is monitored by the board of directors.

Tim Smiddy

T Smiddy
Director
10 March 2021

CREDITON DAIRY LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the 52 weeks ended 2 January 2021 (referred to as "2020" throughout these financial statements). As permitted, details of future developments, financial risk management and energy & carbon reporting are included in the strategic report.

Directors' Indemnity

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Dividends

The directors have not yet proposed a final dividend (2019: 165.4p per ordinary share, amounting to £806,325).

Directors

Directors who are currently serving or who have served during the year are as follows:

- Tim Smiddy
- Neil Kennedy

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 steps that he ought to have taken as a director in order 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.

A resolution to reappoint PKF Francis Clark will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Tim Smiddy

T Smiddy
Director
10 March 2021

DIRECTORS' RESPONSIBILITIES STATEMENT
For the 52 weeks ended 2 January 2021

The directors are responsible for preparing 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 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 judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CREDITON DAIRY LIMITED
For the 52 weeks ended 2 January 2021

Opinion
We have audited the financial statements of Crediton Dairy Limited (the 'company') for the 52 weeks ended 02 January 2021, which comprise the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows, and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:
- give a true and fair view of the state of the company's affairs as at 02 January 2021 and of its profit for the 52 weeks then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the original financial statements were authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

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

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We obtained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates. We identified the principal risks of non-compliance with laws and regulations as relating to breaches around health and safety and trading standards, specifically the British Retail Consortium Food Safety Standard (BRC). We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as The Companies Act 2006, and relevant tax legislation. We considered the extent to which any non-compliance with these laws and regulations may have on the company's ability to continue trading and the risk of a material misstatement in the financial statements. We also evaluated the risk of misstatement of profit, including management bias in accounting estimates.

Based on this understanding we designed our audit procedures to identify irregularities. Our procedures involved the following:

- We made enquiries of senior management as to their knowledge of any non-compliance or potential non-compliance with laws and regulations that could affect the financial statements. As part of these enquiries we also discussed with management whether there have been any known instances of fraud, of which there were none.
- We identified the individuals with responsibility for ensuring the company complies with laws and regulations and discussed with them the procedures and policies in place.
- We obtained the most recent audit reports and certificates issued in relation to Food Safety inspections by the BRC and the company's key customers and reviewed these for evidence of any non-compliance.
- We obtained and reviewed a sample of the company's risk assessments.
- We obtained and considered the company's risk register.
- We reviewed minutes of meetings of Senior Management and those charged with governance.
- We challenged the assumptions and judgements made by management in its significant accounting estimates.
- We audited the risk of management override of controls, including through testing journal entries and other adjustments for appropriateness, and evaluating the business rationale of significant transactions outside the normal course of business.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

PKF Francis Clark

Glenn Nicol (Senior Statutory Auditor)
PKF Francis Clark, Statutory Auditor

Centenary House
Peninsula Park
Rydon Lane
Exeter EX2 7XE

Date: 10 March 2021

STATEMENT OF COMPREHENSIVE INCOME
For the 52 weeks ended 2 January 2021

	Note	5 January 2020-2 January 2021 £'000	30 December 2018-4 January 2020 £'000
Turnover	1	87,332	74,485
Cost of sales		(54,868)	(49,386)
Gross profit		32,464	25,099
Administrative expenses		(22,637)	(20,587)
Operating profit		9,827	4,512
Interest receivable and similar income	5	1	8
Interest payable and similar charges	6	(40)	(66)
Profit on ordinary activities before taxation	2	9,788	4,454
Tax charge on profit on ordinary activities	7	(1,878)	(706)
Profit for the financial period		7,910	3,748
Total comprehensive income for the period		**7,910**	**3,748**

The accompanying accounting policies and notes form an integral part of these financial statements.

CREDITON DAIRY LIMITED

BALANCE SHEET
As at 2 January 2021

	Note	2 January 2021 £'000	4 January 2020 £'000
Fixed assets			
Intangible assets	**9**	(1,022)	(1,416)
Tangible assets	**10**	22,330	16,935
		21,308	15,519
Current assets			
Stocks	**11**	7,606	6,291
Debtors	**12**	10,746	10,123
Cash at bank and in hand		4,908	1,964
		23,260	18,378
Creditors: amounts falling due within one year	**13**	(10,605)	(8,334)
Net current assets		12,655	10,044
Creditors: amounts falling due after one year	**14**	(2,216)	(0)
Provisions for liabilities	**16**	(1,078)	(736)
Net assets		30,669	24,827
Capital and reserves			
Share capital	**21**	450	450
Share premium		147	147
Employee share scheme reserve		6	2
Cash flow hedge reserve		22	(168)
Profit and loss account		30,044	24,396
Shareholders' funds		30,669	24,827

The financial statements of Crediton Dairy Limited, registered number 08490730, were approved by the Board of Directors and authorised for issue on 10 March 2021 and were signed on its behalf by:

Tim Smiddy

Tim Smiddy
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

CREDITON DAIRY LIMITED

STATEMENT OF CHANGES IN EQUITY
For the 52 weeks ended 2 January 2021

	Note	Ordinary share capital £'000	Share premium account £'000	Employee share scheme reserve £'000	Cash flow hedge reserve £'000	Profit and loss account £'000	Total £'000
At 5 January 2020		450	147	2	(168)	24,396	24,827
Profit for the financial year		-	-	-	-	7,910	7,910
Dividends paid	8	-	-	-	-	(806)	(806)
Share based payment expense		-	-	4	-	-	4
Shares issued		-	-	-	-	-	-
Purchase of own shares		-	-	-		(1,456)	(1,456)
Movement in derivatives		-	-	-	190	-	190
Balance at 2 January 2021		**450**	**147**	**6**	**22**	**30,044**	**30,669**

	Note	Ordinary share capital £'000	Share premium account £'000	Employee share scheme reserve £'000	Cash flow hedge reserve £'000	Profit & loss account £'000	Total £'000
At 29 December 2018		450	124	40	-	22,806	23,420
Profit for the financial year		-	-	-	-	3,748	3,748
Dividends paid	8	-	-	-	-	(788)	(788)
Share based payment release		-	-	(42)	-	-	(42)
Share based payment expense		-	-	4	-	-	4
Shares issued		-	23	-	-	-	23
Purchase of own shares		-	-	-	-	(1,370)	(1,370)
Loss on movement of derivatives		-	-	-	(168)	-	(168)
Balance at 4 January 2020		**450**	**147**	**2**	**(168)**	**24,396**	**24,827**

CREDITON DAIRY LIMITED

STATEMENT OF CASH FLOWS
For the 52 weeks ended 2 January 2021

	Note	5 January 2020 - 2 January 2021 £'000	30 December 2018- 4 January 2020 £'000
Net cash inflow from operating activities	**24**	12,566	2,666
Cash flow from investing activities			
Bank interest (paid) / received		(5)	8
Purchase of tangible fixed assets		(7,355)	(8,032)
Net cash flows from investing activities		(7,360)	(8,024)
Cash flows from financing activities			
Repayment of obligations under finance leases		-	-
Dividends paid	**8**	(806)	(788)
Purchase of own shares		(1,456)	(1,370)
Repayment of loan notes		(0)	(242)
Net cash flows from financing activities		(2,262)	(2,400)
Net increase/(decrease) in cash and cash equivalents		2,944	(7,758)
Opening cash at 5 January 2020		1,964	9,722
Closing cash at 2 January 2021		4,908	1,964
Reconciliation to net cash and cash equivalents			
Cash at bank		4,908	1,964
Net cash at 2 January 2021		4,908	1,964

PRINCIPLE ACCOUNTING POLICIES
For the 52 weeks ended 2 January 2021

The principal accounting policies are summarised below, and have all been applied consistently throughout the current year and prior year.

a. Basis of accounting
Crediton Dairy Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the company's operations and its principal activities are set out in the strategic report and directors' reports on pages 2 to 8.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. There are no material departures.

The functional currency of the company is considered to be pounds sterling because that is the currency of the primary economic environment in which the company operates.

b. Going concern
The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report. The strategic report describes the financial position of the company; its cash flows, liquidity position and borrowing facilities; details of its financial instruments and hedging activities; and its exposure to credit and liquidity risk.

The company meets its day to day working capital requirements through its cash resources and bank facilities. The company's forecasts and projections, taking account of reasonably possible changes in trading performance, demonstrate that it should be able to operate within the level of its current resources. The company has held discussions with its bankers about its future funding requirements and no matters have been drawn to its attention to suggest that should any facilities be required that may not be forthcoming on acceptable terms.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

c. Intangible fixed assets - goodwill
Negative goodwill is included in the balance sheet and is credited to the statement of comprehensive income in the periods in which the acquired non-monetary assets are recovered through depreciation or sale. Negative goodwill in excess of fair values of the non-monetary assets acquired is credited to the statement of comprehensive income in the periods expected to benefit.

All negative goodwill is released over a useful economic life of 10 years, being the expected useful life of the non-monetary assets acquired.

d. Tangible fixed assets and depreciation
Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all fixed assets, other than freehold land and assets under construction, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Freehold land and buildings	40 years
Leasehold properties	over the term of the lease
Plant and machinery	3 to 15 years
Computer software, office and computer equipment	3 to 15 years
Fixtures, fittings and equipment	2 to 5 years

Residual value is calculated on prices prevailing at the date of acquisition or revaluation.

A review for impairment of fixed assets is carried out if events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

e. Stocks
Stocks are stated at the lower of cost or net realisable value. Cost is calculated using the standard costing method and includes raw materials, direct labour, and an attributable proportion of overheads based on normal levels of activity. Provision is made for obsolete, slow-moving or defective items where appropriate.

f. Financial instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a finance transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Non-current debt instruments which meet the following conditions, are subsequently measured at amortised cost using the effective interest method:

(a) Returns to the holder are (i) a fixed amount; or (ii) a fixed rate of return over the life of the instrument; or (iii) a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate; or (iv) some combination of such fixed rate and variable rates, providing that both rates are positive.

(b) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.

(c) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in relevant taxation or law.

(d) There are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayment provisions described in (c).

Debt instruments that are classified as payable or receivable within one year and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Other debt instruments not meeting these conditions are measured at fair value through profit or loss.

The finance costs of the financial liability are recognised over the term of the debt using the effective interest method.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the company, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(ii) Equity instruments

Equity instruments issued by the company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

(iii) Derivative financial instruments

The company uses derivative financial instruments to reduce exposure to foreign exchange risk. The Company does not hold or issue derivative financial instruments for speculative purposes.

f. Financial instruments (continued)

(iii) Derivative financial instruments (continued)
Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The company designates certain derivatives as hedging instruments in cash flow hedges.

(iv) Fair value measurement
The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

g. Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods in which the hedged item affects profit or loss or when the hedging relationship ends.

Hedge accounting is discontinued when the company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time is reclassified to profit or loss when the hedged item is recognised in profit or loss. When a forecast transaction is no longer expected to occur, any gain or loss that was recognised in other comprehensive income is reclassified immediately to profit or loss.

h. Current tax
Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

i. Deferred tax
Deferred tax is recognised in respect of 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 differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax is measured on a non-discounted basis.

Deferred tax assets and liabilities are offset only if: a) the company has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

j. Turnover
Turnover represents the amount receivable, net of VAT and rebates, for sales of milk, cream and processed dairy products. It is recognised when the risks and rewards of ownership pass to the customer, which is considered to be the point of despatch.

k. Defined contribution pension scheme
The pension costs charged against profits represent the amount of contributions payable to the scheme in respect of the accounting period.

l. Foreign currencies
Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into to hedge certain foreign currency risks (see above);
- exchange differences arising on gains or losses on non-monetary items which are recognised in other comprehensive income.

m. Leased assets
Assets held under finance leases are capitalised in the balance sheet and depreciated over their estimated useful economic lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the statement of comprehensive income over the period of the lease. All other leases are regarded as operating leases and are charged to the statement of comprehensive income on a straight-line basis over the period of the lease term.

n. Share-based payment
The Company issues equity-settled share-based payments to certain employees within the Company. Equity-settled share-based payment transactions are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

Fair value is measured by use of market values at the time of issue which is considered by management to be the most appropriate method of valuation.

o. Critical accounting judgements and key sources of estimation uncertainty
On consideration of the judgements and estimation uncertainties included in these financial statements and the accounting policies applied it is the view of management that these do not have a significant effect on the amounts recognised in the financial statements or lead to a risk of causing a material misstatement of the carrying amounts of assets and liabilities within the next financial year. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

1. Turnover

Turnover is wholly attributable to the supply of milk, cream and processed dairy products.

All turnover arose within the United Kingdom, except for £288,344 (2019: £255,374), which arose from sales to Europe.

2. Profit on ordinary activities before taxation

	2020 £'000	2019 £'000
Profit on ordinary activities arises after charging/(crediting):		
Auditor's remuneration		
- audit of the company's accounts	22	22
- taxation compliance services	4	4
- taxation advisory services	5	31
Negative goodwill amortisation	(394)	(394)
Depreciation - owned assets	1,926	1,661
Operating lease rentals – plant and machinery	55	101
Loss on foreign exchange translation	4	28
Stock impairment recognised as an expense	530	424
Stock recognised as expense	54,070	48,962

3. Directors' remuneration

	2020 £'000	2019 £'000
Emoluments paid and payable to directors	283	226
Pension contributions	24	23
	307	249

The highest paid director received emoluments in the year of £233,000 (2019: £178,000) and pension contributions of £24,000 (2019: £23,000).

In 2020 one director was a member of a defined contribution pension scheme (2019: one).

4. Staff costs

	2020 £'000	2019 £'000
Wages and salaries	6,597	5,699
Social security costs	639	607
Other pension costs	441	386
	7,677	6,692

Average number of employees	**No.**	**No.**
Production	125	122
Administration	23	23
	148	145

5. Interest receivable and similar income

	2020 £'000	2019 £'000
Bank interest receivable	1	8
	1	8

6. Interest payable and similar charges

	2020 £'000	2019 £'000
Bank interest payable	(5)	(5)
Amortisation of capitalised borrowing costs	-	-
Loan notes interest payable	(35)	(61)
Finance lease charges	-	-
	(40)	(66)

7. Tax on profit on ordinary activities

The tax charge comprises:

	2020 £'000	2019 £'000
Current tax on profit on ordinary activities		
UK corporation tax	1,541	443
Adjustment in respect of prior periods	(5)	-
Total current tax	1,536	443
Deferred tax		
Origination and reversal of timing differences	342	263
Effect of changes in tax rates	-	-
Adjustment in respect of prior periods	-	-
Total deferred tax (see note 16)	342	263
Total tax on profit on ordinary activities	1,878	706

The standard rate of tax applied to reported profit on ordinary activities is 19% (2019: 19%). The UK corporation tax rate was reduced from 20% to 19% with effect from 1 April 2017.

The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2020 £'000	2019 £'000
Profit on ordinary activities before tax	9,788	4,454
Tax on company profit on ordinary activities at standard UK corporation tax rate of 19% (2019: 19%)	1,860	846
Effects of:		
- Fixed asset differences	11	13
- Expenses not deductible	2	9
- Income not taxable in determining taxable profit	(75)	(83)
- Adjustment from previous periods	(5)	-
- Adjustment from previous periods – deferred tax	4	(1)
- Changes in tax rates	-	(30)
- Land remediation relief	-	(31)
- Other adjustment	-	2
- R&D relief	(6)	(19)
- Remeasurement of deferred tax for changes in tax rates	87	-
Total tax charge for period	1,878	706

8. Dividends paid

Amounts recognised as distributions to equity holders in the period:

	2020 £'000	2019 £'000
Final dividend for the year ended 02 January 2020 of 165.4p (2018: 157.5p) per ordinary share	806	788

The directors have not yet proposed a final dividend for 2020.

9. Intangible fixed assets

	Negative goodwill £'000
Cost	
At 04 January 2020 and 02 January 2021	(3,944)
Amortisation	
At 4 January 2020	2,528
Credit for the year	394
At 2 January 2021	2,922
Net book value	
At 2 January 2021	**(1,022)**
At 4 January 2020	(1,416)

10. Tangible fixed assets

	Freehold property £'000	Plant and machinery £'000	Computer software, office and computer equipment £'000	Fixtures, fittings and equipment £'000	Assets under con- -struction £'000	Total £'000
Cost						
At 5 January 2020	2,688	19,993	989	298	7,591	31,559
Additions	615	2,230	34	-	4,476	7,355
Disposals	-	(4,661)	(47)	(30)	-	(4,738)
Transfers	2,742	4,878	23	1	(7,644)	-
At 2 January 2021	6,045	22,440	999	269	4,423	34,176
Depreciation						
At 5 January 2020	402	13,383	642	197	-	14,624
Charge for year	100	1,620	170	36	-	1,926
Disposals	-	(4,630)	(44)	(30)	-	(4,704)
Transfers	-	-	-	-	-	-
At 2 January 2021	502	10,373	768	203	0	11,846
Net book value						
At 2 January 2021	**5,543**	**12,067**	**231**	**66**	**4,423**	**22,330**
At 4 January 2020	**2,286**	**6,610**	**347**	**101**	**7,591**	**16,935**

Included in assets under construction above are assets held under finance leases with a Net Book Value of £2,299,000 (2019: £Nil) and depreciation charged in the year of £Nil (2019: £Nil).

11. Stocks

	2020 £'000	2019 £'000
Raw materials and consumables	4,096	3,681
Finished goods	3,510	2,610
	7,606	6,291

12. Debtors

	2020 £'000	2019 £'000
Due within one year		
Trade debtors	9,419	8,213
Other debtors	688	1,320
Prepayments	617	590
Derivative finance asset	22	-
	10,746	10,123

13. Creditors: Amounts falling due within one year

	2020 £'000	2019 £'000
Trade creditors	(5,177)	(3,753)
Accruals	(4,238)	(4,163)
Corporation tax	(849)	(-)
Loan notes	(-)	(250)
Derivative finance liabilities	(-)	(168)
Finance lease	(341)	(-)
	(10,605)	(8,334)

14. Creditors: Amounts falling due after one year

	2020 £'000	2019 £'000
Finance lease	(1,966)	-
Loan notes	(250)	(0)
	(2,216)	(0)

15. Borrowings

The company's bank finance facilities are a single consolidated facility provided by Lloyds Banking Group.

The financing agreement in the name of Crediton Dairy Limited provides up to £7,000,000 (2019: £7,000,000) of funding on an uncommitted basis.

Bank borrowings are secured by fixed and floating charges over the assets of the company.

	2020 £'000	2019 £'000
Loan notes		
Within one year	-	250
Between two and five years	250	-
After five years	-	-
	250	250

The loan notes in issue during 2020 have been extended to 2023 and have an interest rate of 5% per annum (previously 8%). The loan notes were issued to shareholders and senior management. The loan notes plus accrued interest are repayable in full by 31 December 2023.

16. Provisions for liabilities

	Deferred taxation £'000
At 4 January 2020	736
Charged to the statement of comprehensive income	342
At 2 January 2021	1,078

Deferred tax is provided as follows:	2020 £'000	2019 £'000
Fair value adjustment on tangible fixed assets	1,127	760
Other timing differences	(49)	(24)
Provision for deferred tax	1,078	736

Deferred tax assets and liabilities are offset only where the company has a legally enforceable right to do so and where the assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

17. Financial instruments

The carrying values of the Company's financial assets and liabilities are summarised by category below:

	2020 £'000	2019 £'000
Financial assets		
Measured at undiscounted amount receivable:		
Trade and other debtors	10,107	9,502
Measured at fair value through profit or loss:		
Derivative financial assets	22	-
	10,129	9,502

	2020 £'000	2019 £'000
Financial liabilities		
Measured at fair value through profit or loss:		
Derivative financial liabilities	-	168
Measured at amortised cost:		
Loans payable	250	250
Obligations under finance leases	2,307	-
Measured at undiscounted amount payable:		
Bank borrowings	-	-
Trade and other creditors	5,177	3,753
	7,734	4,171

The Company's income, expense, gains and losses in respect of financial instruments are summarised below:

	2020 £'000	2019 £'000
Interest income and expense		
Total interest expense for financial liabilities at amortised cost	35	61

18. Derivative financial instruments

	2020 £'000	2019 £'000
Derivatives that are designed and effective as Hedging instruments carried at fair value		
Assets		
Forward foreign currency contracts	22	-
Liabilities		
Forward foreign currency contracts	-	168

The company has entered into forward foreign currency contracts to mitigate the exchange rate risk arising from fluctuations in the Euro. The company has designated these contracts as cash flow hedges of foreign exchange risk in highly probable forecast transactions. The hedged cash flows are expected to occur and to affect profit or loss within the next financial year.

Forward foreign currency contracts are valued using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

Forward Foreign currency contracts
The following table details the forward foreign currency contracts outstanding as at the year-end:

Outstanding contracts	Average contractual exchange rate		Notional value		Fair value	
	2020 Rate	2019 Rate	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Purchase (Euros)						
Less than 3 months	1.1100	1.1178	2,703	2,684	2	119
3 to 6 months	1.1196	1.1369	2,679	2,637	(24)	64
Greater than 6 months	-	1.1634	-	5,158	-	(15)
					(22)	168

19. Share-based payments

Equity-settled share-based payments
The Company had an equity-settled share-based payment scheme for certain employees of the Company whereby the employees acquire shares for no monetary consideration and so the exercise price is £nil. The scheme had a five year period and vested in 2019.

Details of the share-based payments outstanding during the year are as follows:

	2020 Number of shares	2019 Number of shares
Outstanding at beginning of period	-	41,667
Granted during the period	-	-
Vested during the period	-	(41,667)
Outstanding at the end of the period	-	-
Exercisable at the end of the period	-	-

The fair value of the shares granted was calculated by reference to the market value of the shares agreed with HM Revenue and Customs when they were issued in March and April 2014.

In the prior year the Company recognised an expense of £2,083 and a gain of £41,667 in respect of equity-settled share-based payments in the year.

The company has a new equity-settled share-based payment scheme for certain employees of the Company whereby all 40,979 options granted in the prior year were exercised at a price equal to the estimated fair value of those options at the date of grant. The fair value of the options was calculated using the Black Scholes model, which is considered to be the most appropriate generally accepted valuation method of measuring fair value. The shares have certain restrictions attaching to them (as outlined in note 21) for a period of five years from the date of exercise and therefore the equity-settled share-based payment charge is being spread over five years. The company recognised an expense of £4,390 (2019: £1,912) in respect of equity-settled share-based payments during the year.

20. Obligations under operating lease commitments

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

	2020 £'000	2019 £'000
Within one year	50	67
Over one year but less than five years	18	70
	68	137

21. Share capital

	2020 £'000	2019 £'000
Allotted, called up and fully paid:		
225,000 A ordinary shares of £1 each	225	225
225,000 B ordinary shares of £1 each	225	225
37,500 C ordinary shares of £0.001 each	-	-
40,979 D ordinary shares of £0.01 each	-	-
	450	450

A, B & C ordinary shares carry equal voting rights, dividend rights and distribution rights on winding up. D ordinary shares have no voting rights and only have dividend rights over and above £0.9 million of profits distributed as particularly described in the articles of association. Distribution rights on winding up for D ordinary shares shall only participate pro rata in value in excess of the Hurdle Value applying to such class of D ordinary shares, as described in more detail in the articles of association. All shares are non-redeemable.

During the prior year, 40,979 D ordinary shares of £0.01 each were allotted for total consideration of £22,948.

22. Capital commitments

	2020 £'000	2019 £'000
Contracted for but not provided	836	1,199

23. Contingent liabilities

The company is from time to time, party to legal proceedings and claims that are in the ordinary course of business. The directors do not anticipate that the outcome of the proceedings and claims, either individually or in aggregate, will have a material adverse effect on the company's financial position.

24. Reconciliation of operating profit to cash flow from operating activities

	Note	2020 £'000	2019 £'000
Operating profit		9,827	4,512
Negative goodwill amortisation	9	(394)	(394)
Depreciation and amortisation charges	10	1,926	1,661
(Increase) in stocks		(1,315)	(823)
(Increase) in debtors		(623)	(441)
Increase / (decrease) in creditors		4,014	(961)
Corporation tax paid		(679)	(1,018)
(Increase)/Decrease in derivative financial assets		(190)	168
Share based payments		-	(38)
Net cash inflow from operating activities		12,566	2,666

Net Debt Reconciliation

	2019 £'000	Cash £'000	Non-cash £'000	2020 £'000
Cash at Bank	1,964	2,944	-	4,908
Loans payable	(250)	-	-	(250)
Obligations under finance lease	-	-	(2,307)	(2,307)
Net Cash	1,714	2,944	(2,307)	2,351

25. Related party transactions

Unsecured 8 per cent loan notes were owed to Tim Smiddy. The amount of the company's liability at the beginning of the period was £373,000 (2019: £345,000), the maximum during the period was £405,000 (2019: £373,000) and at the end of the year £405,000 was owed to Tim Smiddy including interest (2019: £373,000). Interest charged during the period amounted to £32,000 (2019: £28,000). At the year end the loan was extended for a further three years on an unsecured basis earning interest at 5 per cent.

Neil Kennedy's loan amounting to £373,000 was repaid in full with interest at the prior year end.

The total remuneration for key management personnel for the period totalled £307,000 (2019: £249,000), being remuneration disclosed in note 3.

26. Controlling party

It is the directors' view that there is no ultimate controlling party.