

TMI Foods Limited

Directors' report and financial statements for the year
ended 29 December 2019

Registered No: 04571020



DIRECTORS' REPORT AND FINANCIAL STATEMENTS
for the year ended 29 December 2019

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COMPANY INFORMATION

DIRECTORS

Alexander Ronald John Smith
Larry Murrin
Peter Queally
John Queally
Michael Queally

SECRETARY

Arrow Secretarial Services Limited

REGISTERED OFFICE

Lodge Way,
Lodge Farm Industrial Estate,
Northampton,
NN5 7US,
United Kingdom.

AUDITOR

Ernst & Young,
Chartered Accountants,
The Atrium,
Maritana Gate,
Canada Street,
Waterford,
Ireland.

BANKERS

Danske Bank A/S

DIRECTORS' REPORT

for the year ended 29 December 2019

The directors present their report and financial statements for the year ended 29 December 2019. Certain directors are also directors and controlling members of the company's parent, Dawn Farm Foods Limited and its ultimate parent company, Arrow Group Limited. As a consequence, the members are at all times familiar with the performance, development and position of the company's business.

RESULTS FOR THE YEAR, DIVIDENDS AND STATE OF AFFAIRS

The Profit and Loss Account, Balance Sheet and related notes for the year ended 29 December 2019 are set out on pages 12 to 28.

No dividends have been paid or proposed during the year (2018: nil). Accordingly, the profit of Stg£1,445,771 (2018: profit Stg£1,166,565) is credited to reserves.

EVENTS SINCE THE BALANCE SHEET DATE

Other than as described in the "Business Review" section of the Strategic Report in relation to COVID-19, there were no significant events between the balance sheet date and the date of signing of the financial statements, affecting the company, which require adjustment to or disclosure in the financial statements.

GOING CONCERN

It is our view, to the best of our current knowledge, that COVID-19 will not have a material adverse impact on the company's ability to continue as a going concern.

The directors have considered cash flow projections for a period of at least 12 months from the date of approval of the financial statements. Based on the outcome of these projections, which takes into account the risks and uncertainties arising from the COVID-19 situation (outlined above), the directors are satisfied that it is appropriate to use the going concern basis in preparing the financial statements.

POLITICAL DONATIONS

There were no political donations in the year.

FUTURE DEVELOPMENTS IN THE BUSINESS

In light of the impact of Brexit and COVID-19 as discussed in "Business Review" above, the company will continue its focus on the control of costs, working capital optimisation and on broadening its customer base across all regions.

DIRECTORS

The directors are listed on page 2. All directors served throughout the year.

DIRECTORS' REPORT**for the year ended 29 December 2019 (Continued)***DIRECTORS' AND SECRETARY'S INTERESTS IN SHARES*

The directors and secretary hold no interest in the share capital of the company. The interests of the directors and secretary in the share capital of its immediate parent, Dawn Farm Foods Limited at the beginning and end of the financial year were as follows:

'D' Ordinary shares

L. Murrin	38,250
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In addition, the 100 'B' ordinary shares in Dawn Farm Foods Limited are held by Lucent Food Innovation Limited a company which is controlled by L. Murrin.

The "A" ordinary shares are held by Arrow Group Limited a company in which the directors and secretary hold an interest at the beginning and end of the financial year as follows:

	<i>A' Ordinary shares</i>	<i>'B' Ordinary shares</i>	<i>'C' Ordinary shares</i>	<i>'E' Ordinary shares</i>	<i>'F' Ordinary shares</i>
J. Queally	1,000	-	267	265	-
P. Queally	500	-	267	105	100
M. Queally	-	500	-	49	100

EMPLOYEE INVOLVEMENT

The company aims to improve the performance of the organisation through the development of its employees. Their involvement is encouraged by means of team working, workers' committees and working parties.

Where deemed necessary by management, employees' or their representatives' views are taken into account in making decisions which are likely to affect employees' interests.

EMPLOYMENT OF DISABLED PERSONS

The company gives full and fair consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a disabled person. Opportunities are available to disabled employees for training, career development and promotion. Where existing employees become disabled, it is the company's policy to provide continuing employment wherever practicable in the same or in an alternative position and to provide appropriate training to achieve this aim.

RESEARCH AND DEVELOPMENT

The company was engaged in research and development activities during the year across various projects. The cost incurred in the year was Stg£663,148 (2018: Stg£1,118,840).

DIRECTORS' REPORT

for the year ended 29 December 2019 (Continued)

THE COMPANY AND THE ENVIRONMENT

The company is committed to conducting its activities with due care and regard for the environment and to continual improvement to achieve a high standard of environmental performance. The company is committed to managing and reducing its greenhouse gas emissions and their contribution to climate change and to managing and reducing its water consumption and ensuring that all its wastewater is treated to the highest environmental standards. The company is committed to reducing quantities of waste produced and actively uses recyclable packaging.

DISCLOSURE OF INFORMATION TO THE AUDITOR

Having made the requisite enquiries, so far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditor is unaware, and the directors have taken all steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

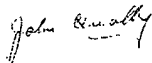
RE-APPOINTMENT OF AUDITOR

Ernst & Young, Chartered Accountants, have expressed their willingness to continue in office as auditor and in accordance with S.487 of the Companies Act 2006, a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

REGISTERED OFFICE:

Lodge Way,
Lodge Farm Industrial Estate,
Northampton,
NN5 7US,
United Kingdom.

On behalf of the Board



John Queally
Director


Larry Murrin
Director

Date 15 May 2020

DIRECTORS' RESPONSIBILITIES STATEMENT
for the year ended 29 December 2019

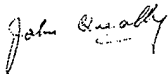
The directors are responsible for preparing the Directors' Report, the Strategic Report and financial statements in accordance with applicable law and regulations.

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 UK accounting standards, including FRS102, "The Financial Reporting Standard applicable in the UK and Republic of Ireland." (United Kingdom Generally Accepted Accounting Practice). Under company law the directors must not approve these 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 those financial statements, the directors are required to:

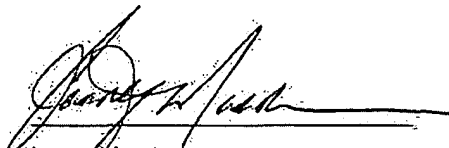
- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare 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 proper 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.

On behalf of the Board



John Queally
Director



Larry Murrin
Director

Date 15 May 2020

STRATEGIC REPORT
for the year ended 29 December 2019

The directors present their Strategic Report for the year ended 29 December 2019.

PRINCIPAL ACTIVITY

The principal activity of the company continues to be the manufacture of food. During the year the company continued to seek to increase volumes while reducing cost by gaining further production efficiencies.

PRINCIPAL RISKS AND UNCERTAINTIES AND KEY PERFORMANCE INDICATORS

Under UK Company Law (Section 417 - Companies Act 2006) the company is required to give a description of the principal risks and uncertainties faced.

- The principal risks and uncertainties that the business faces include overcapacity in the sector and pressure on margins by major customers. The company must also ensure that all of its products and processes adhere to relevant food safety standards. In addition, the impact of COVID-19 needs to be considered (see "Business Review" commencing below and incorporated by reference herein). The directors take appropriate measures to minimise the company's exposure to all known risks. The management of risk is an area of major focus for the company.
- The cost of funds may increase.

BUSINESS REVIEW

The company's key financial and other performance indicators during the year were as follows:

	2019 Stg £'000	2018 Stg £'000	Change %
Turnover	64,316	57,520	12%
EBITDA	3,821	3,250	18%
Operating profit	1,939	1,591	22%
Shareholders' funds	10,386	8,924	16%

Turnover, EBITDA and operating profit have increased due to the introduction of new customers to the business.

Shareholders' funds increased as a result of the profit during the year.

COVID-19 impact

The spread of the COVID-19 outbreak has caused severe disruptions in many economies, including those impacting the company and its customers, which are facing into a recession of an undetermined extent and length.

We are closely monitoring the potential impact of COVID-19 on our 2020 financial results and cashflows and have prepared a detailed risk assessment and revised projections for the company. Our top priority remains the health and safety of our staff and customers.

STRATEGIC REPORT
for the year ended 29 December 2019 (Continued)

BUSINESS REVIEW (continued)

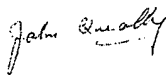
COVID-19 impact (continued)

We expect that the most significant potential impact on our financial results and cashflows resulting from COVID-19 would be in relation to supply chain, customer orders, given that the food service industry has been particularly affected by government restrictions across the UK, and order fulfilment.

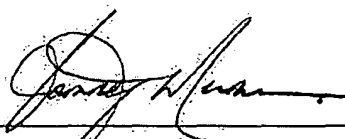
Based on information provided by the Government, the NHS, the WHO and also available publicly, we are taking a number of measures to reduce any potential impact, including adjusting capacity to current demand and preserving cash. Measures have also been taken to ensure operations adhere to current NHS guidelines.

In terms of impact on risks outlined above, the company has financial resources at its disposal with the availability of group bank facilities; and has considered, through working with customers and suppliers, the ability of customers to honour their obligations and the availability of appropriate supplier credit terms; and as a consequence, the directors believe that the company is well placed to manage the impact of COVID-19 and indeed all of its business risks successfully.

On behalf of the Board



John Queally
Director



Larry Murrin
Director

Date: 15 May 2020



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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TMI FOODS LIMITED

Opinion

We have audited the financial statements of TMI Foods Limited for the year ended 29 December 2019 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 23, 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 FRS 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 company's affairs as at 29 December 2019 and of its 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.

Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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



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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TMI FOODS LIMITED (Continued)

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our Auditor's Report thereon. The directors are responsible for the other information.

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept 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.



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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TMI FOODS LIMITED (Continued)

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, 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.

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

Use of our report

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

A handwritten signature in black ink, appearing to read 'Pat O'Neill'.

Pat O'Neill (Senior statutory auditor)
for and on behalf of Ernst & Young, Chartered Accountants and Statutory Auditor

Waterford

Date: 20 May 2020

TMI FOODS LIMITED
PROFIT AND LOSS ACCOUNT
for the year ended 29 December 2019

	<i>Note</i>	<i>2019</i> <i>Stg£</i>	<i>2018</i> <i>Stg£</i>
Turnover	2	64,316,443	57,520,335
Cost of sales		(59,148,543)	(52,315,052)
Gross profit		5,167,900	5,205,283
Distribution costs		(818,803)	(792,823)
Administrative expenses		(2,409,630)	(2,821,330)
Operating profit	4	1,939,467	1,591,130
Interest payable and similar charges	5	(125,660)	(106,665)
Profit on ordinary activities before taxation		1,813,807	1,484,465
Tax on profit on ordinary activities	6	(368,036)	(317,900)
Profit for the financial year		1,445,771	1,166,565

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 29 December 2019

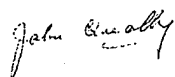
	<i>Note</i>	<i>2019</i> <i>Stg£</i>	<i>2018</i> <i>Stg£</i>
Profit for the financial year		1,445,771	1,166,565
<i>Other comprehensive income:</i>			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Net fair value movements on cash flow hedges		20,584	–
Deferred tax on cash flow hedges	14	(3,911)	–
Other comprehensive income for the year, net of tax		16,673	–
Total comprehensive income for the year, net of tax		1,462,444	1,166,565

TMI FOODS LIMITED

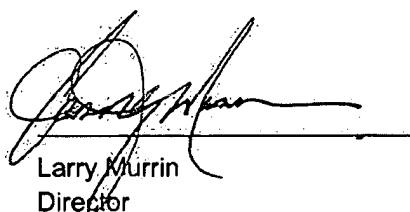
BALANCE SHEET
at 29 December 2019

	Note	2019 Stg£	2018 Stg£
FIXED ASSETS			
Tangible fixed assets	7	15,514,309	14,861,119
CURRENT ASSETS			
Stocks	8	4,009,876	3,418,081
Debtors (due within one year)	9	13,595,463	14,278,385
Debtors (due after more than one year)	9	200,000	–
Cash at bank		1,201,879	1,295,910
		19,007,218	18,992,376
CREDITORS (amounts falling due within one year)	10	(18,374,558)	(24,389,722)
NET CURRENT ASSETS/(LIABILITIES)		632,660	(5,397,346)
TOTAL ASSETS LESS CURRENT LIABILITIES		16,146,969	9,463,773
CREDITORS (amounts falling due after more than one year)	11	(5,100,000)	–
PROVISIONS FOR LIABILITIES AND CHARGES	14	(660,610)	(539,858)
NET ASSETS		10,386,359	8,923,915
CAPITAL AND RESERVES			
Called up share capital	17	30,189	30,189
Share premium account	18	575,311	575,311
Other undenominated capital	18	60,000	60,000
Cash flow hedge reserve		16,673	–
Profit and loss account		9,704,186	8,258,415
Shareholders' funds		10,386,359	8,923,915

Approved by the Board on: 15 May 2020



John Queally
Director


Larry Murrin
Director

STATEMENT OF CHANGES IN EQUITY
at 29 December 2019

	<i>Called up share capital presented as equity Stg£</i>	<i>Other undenominated capital Stg£</i>	<i>Share premium account Stg£</i>	<i>Cash flow hedge reserve Stg£</i>	<i>Profit and loss account Stg£</i>
At 1 January 2018	30,189	60,000	575,311	–	7,097
Profit for the financial year	–	–	–	–	1,166
Total comprehensive income for the year	–	–	–	–	1,166
At 30 December 2018	30,189	60,000	575,311	–	8,253
Profit for the financial year	–	–	–	–	1,441
Other comprehensive income	–	–	–	16,673	–
Total comprehensive income for the year	–	–	–	16,673	1,441
At 29 December 2019	30,189	60,000	575,311	16,673	9,704

NOTES TO THE FINANCIAL STATEMENTS
29 December 2019

1. ACCOUNTING POLICIES

(a) *Statement of compliance*

TMI Foods Limited is a limited liability company incorporated in England. The Registered Office is Lodge Way, Lodge Farm Industrial Estate, Northampton, United Kingdom.

The financial statements have been prepared for the year ended 29 December 2019 in accordance with applicable accounting standards issued by the Financial Reporting Council including FRS 102, "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

(b) *Basis of preparation*

The financial statements have been prepared on a going concern basis under the historical cost convention, (except for derivative financial instruments that have been measured at fair value) in accordance with the Accounting Standards issued by the Financial Reporting Council. The directors have considered cash flow projections for a period of at least 12 months from the date of approval of the financial statements. Based on the outcome of these projections, which takes into account the risks and uncertainties arising from the COVID-19 situation, the directors are satisfied that it is appropriate to use the going concern basis in preparing the financial statements.

The financial statements have been presented in sterling which is the functional and presentational currency of the company.

(c) *Exemptions for qualifying entities under FRS 102*

The company meets the definition of a qualifying entity under FRS 102 and has taken advantage of the disclosure exemptions available to it. Exemptions have been taken in relation to:

- Exemption from FRS 102 3.17(d) of Section 7 from requirement to prepare a cash flow statement;
- Exemption from FRS 102 33.7 from disclosure of transactions with key personnel;
- Exemption from FRS102 4.12 from disclosure to prepare a reconciliation of the opening and closing number of shares;
- Exemption from FRS102 Section 11 paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c) providing disclosures equivalent to those required by this FRS are included in the consolidated financial statements of the group in which the entity is consolidated.

(d) *Accounting estimates and judgements*

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the Balance Sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

NOTES TO THE FINANCIAL STATEMENTS
29 December 2019 (Continued)

1. ACCOUNTING POLICIES (Continued)

(d) *Accounting estimates and judgements (continued)*

Provisions

The amounts recognised as a provision are management's best estimate of the expenditure required to settle present obligations at the Balance Sheet date. The outcome depends on future events which are by their nature uncertain. In assessing the likely outcome, management bases its assessment on historical experience and other factors that are believed to be reasonable in the circumstances.

Deferred tax assets and liabilities

The recognition of a deferred tax asset is based upon whether it is probable that sufficient and suitable taxable profits will be available in the future, against which the reversal of temporary differences can be deducted. Deferred tax liabilities are disclosed in note 14 to these financial statements.

Stocks

The company values its work in progress and finished goods using the retail method. This involves estimating the selling price being achieved and reducing this selling price by production margins to estimate cost. This valuation method requires judgement in determining appropriate sales price and margins.

Operating lease commitments

The entity has entered into commercial leases and as a lessee it obtains the use of certain items of property, plant and equipment. The classification of such leases as operating or finance leases requires the company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the Balance Sheet.

(e) *Revenue recognition*

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received and receivable, excluding discounts, rebates, VAT and other sales duty. The following criteria must also be met before revenue is recognised:

Sale of goods:

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

NOTES TO THE FINANCIAL STATEMENTS

29 December 2019 (Continued)

1. ACCOUNTING POLICIES (Continued)

(f) *Tangible fixed assets and depreciation*

Tangible fixed assets are stated in the Balance Sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Such costs include costs directly attributable to making the asset capable of operating as intended. Freehold land is not depreciated. Depreciation on all other tangible fixed assets is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a systematic basis over its expected useful life as follows:

Leasehold property	50 years
Equipment	3-10 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

(g) *Impairment of fixed assets*

Where there are indicators of impairment of individual assets, the company performs impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction on similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested.

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

(h) *Foreign currency transactions and balances*

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the Balance Sheet date. All differences are taken to the profit and loss account.

(i) *Research and development*

Research and development expenditure is charged to the profit and loss account as incurred.

(j) *R&D tax credits*

R&D tax credits are recognised in the period in which the qualifying expenditure is incurred. Recognition is conditional on there being reasonable certainty that the tax credits will be recovered. The tax credits are offset in the profit and loss account against the qualifying expenditure.

NOTES TO THE FINANCIAL STATEMENTS
29 December 2019 (Continued)

1. ACCOUNTING POLICIES (Continued)

(k) *Stocks*

Stocks are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal. Raw materials and goods for resale are valued at cost on a first in first out basis and such cost includes all costs incurred in bringing each product to its present location and condition.

Work in progress and finished goods are valued using the retail method which is based on estimated selling price less any further costs expected to completion and disposal while reducing this selling price by the production margin.

(l) *Taxation*

Current tax is recognised based on tax rates and laws in effect during the year.

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses 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 the directors consider it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the Balance Sheet date.

(m) *Defined contribution pension scheme*

The company operates a defined contribution pension scheme for certain employees. Contributions are charged to the Profit and Loss Account as they become payable, in accordance with the rules of the schemes.

(n) *Basic financial instruments*

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

Trade and other debtors/creditors

Trade and other debtors/creditors are recognised initially at transaction price. Subsequent to initial recognition they are measured at amortised cost less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

NOTES TO THE FINANCIAL STATEMENTS
29 December 2019 (Continued)

1. ACCOUNTING POLICIES (Continued)

(n) *Basic financial instruments (continued)*

Interest-bearing loans and borrowings

All interest-bearing loans and borrowings which are basic financial instruments are initially recognised at the present value of cash payable (including interest). After initial recognition they are measured at amortised cost using the effective interest rate method, less impairment. The effective interest rate amortisation is included in interest payable and similar charges in the Profit and Loss Account.

Cash and cash equivalents

Cash and cash equivalents in the Balance Sheet comprise cash at bank and in hand and short term deposits with an original maturity date of three months or less.

(o) *Finance costs*

Finance costs that are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of these assets.

(p) *Other financial instruments*

The company uses derivative financial instruments, such as forward currency contracts to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss except for effective cash flow hedges, which are recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment. Such hedges that meet the criteria for hedge accounting under FRS 102 are accounted for as follows:

Cash flow hedges

The gain or loss on effective hedging instruments is recognised in other comprehensive income in the cash flow hedge reserve, while any gain or loss on ineffective instruments is recognised immediately in the profit and loss account. The company uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments. The fair value movement relating to ineffective foreign currency contracts is recognised in administration expenses. Amounts recognised as other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when a forecast sale occurs.

NOTES TO THE FINANCIAL STATEMENTS
29 December 2019 (Continued)

2. TURNOVER

Turnover represents amounts invoiced to third parties, less settlement discounts, rebates and sales taxes.

Segmental analysis is not given as, in the opinion of the directors, this would be prejudicial to the interests of the company.

3. EMPLOYEES AND REMUNERATION

The average number of persons employed by the company during the financial year, including the directors, amounted to 193 (2018: 194).

	2019 No.	2018 No.
Production	162	167
Administration	16	15
Sales and distribution	15	12
	<u>193</u>	<u>194</u>

<i>Staff costs comprise:</i>	2019 Stg£	2018 Stg£
Wages and salaries	5,428,628	5,217,282
Social security costs	515,316	479,493
Other pension costs	165,576	135,614
Redundancy	–	61,515
	<u>6,109,520</u>	<u>5,893,904</u>

Excluded from wages and salaries above are recharges from other group companies of Stg£268,520 (2018: Stg£nil).

Directors

Remuneration in respect of directors was as follows:

	2019 Stg£	2018 Stg£
Emoluments receivable	82,500	81,200
Value of company pension contributions to money purchase schemes	6,400	6,400
	<u>88,900</u>	<u>87,600</u>

NOTES TO THE FINANCIAL STATEMENTS

29 December 2019 (Continued)

3. EMPLOYEES AND REMUNERATION (Continued)

The number of directors who are accruing benefits under company pension schemes were as follows:

	No.	No.
Money purchase schemes	1	1

The amounts set out above include remuneration in respect of the highest paid director as follows:

	2019 Stg£	2018 Stg£
Emoluments receivable	82,500	81,200
Value of company pension contributions to money purchase schemes	6,400	6,400
	<u>88,900</u>	<u>87,600</u>

4. OPERATING PROFIT

2019
Stg£

2018
Stg£

This is stated after charging:

Depreciation	1,881,167	1,658,501
Auditor's remuneration:		
- Audit of financial statements	14,691	14,912
- Tax compliance services	979	1,713
- Other compliance services	652	517
Operating lease costs:		
- Land and buildings	108,828	108,828
- Other	116,081	52,087
R & D expenditure	<u>663,148</u>	<u>1,118,840</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

2019
Stg£

2018
Stg£

Bank overdraft and loan interest	<u>125,660</u>	<u>106,665</u>
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NOTES TO THE FINANCIAL STATEMENTS
29 December 2019 (Continued)

6.	TAX ON PROFIT ON ORDINARY ACTIVITIES	2019 Stg£	2018 Stg£
(a)	<i>Analysis of charge for the year:</i>		
	<i>Current tax:</i>		
	UK Corporation tax based on the results for the year	285,853	393,006
	Adjustments to tax charge in respect of prior years	(34,658)	1,196
		<hr/>	<hr/>
	Total current tax	251,195	394,202
	<i>Deferred tax:</i>		
	Origination and reversal of timing differences	116,841	(76,302)
		<hr/>	<hr/>
	Tax on profit on ordinary activities	<u>368,036</u>	<u>317,900</u>

(b) *Factors affecting tax charge for the year:*

The tax assessed for the year differs from that calculated using the standard rate of corporation tax in the United Kingdom. The differences are explained below:

	2019 Stg£	2018 Stg£
Profit on ordinary activities before taxation	<u>1,813,807</u>	<u>1,484,465</u>
Profit on ordinary activities before tax multiplied by standard rate of corporation tax in the United Kingdom of 19% (2018: 19%)	344,623	282,048
<i>Effects of:</i>		
Expense not deductible for tax purposes	4,776	3,145
Depreciation less than capital allowances	61,878	30,892
Other timing differences	(8,583)	619
Adjustments to tax charge in respect of prior years	(34,658)	1,196
	<hr/>	<hr/>
Total tax charge for year	<u>368,036</u>	<u>317,900</u>

NOTES TO THE FINANCIAL STATEMENTS
29 December 2019 (Continued)

7. TANGIBLE FIXED ASSETS

	<i>Long leasehold property Stg£</i>	<i>Equipment Stg£</i>	<i>Total Stg£</i>
<i>Cost:</i>			
At beginning of year	9,384,185	16,410,097	25,794,282
Additions	—	2,534,357	2,534,357
	<hr/>	<hr/>	<hr/>
At end of year	9,384,185	18,944,454	28,328,639
	<hr/>	<hr/>	<hr/>
<i>Depreciation:</i>			
At beginning of year	1,697,790	9,235,373	10,933,163
Charge for year	187,699	1,693,468	1,881,167
	<hr/>	<hr/>	<hr/>
At end of year	1,885,489	10,928,841	12,814,330
	<hr/>	<hr/>	<hr/>
<i>Net book value:</i>			
At end of year	7,498,696	8,015,613	15,514,309
	<hr/>	<hr/>	<hr/>
At beginning of year	7,686,395	7,174,724	14,861,119
	<hr/>	<hr/>	<hr/>

The aggregate amount of finance costs included in the net book value of tangible fixed assets is Stg£66,795 (2018: Stg£84,814).

8. STOCKS	<i>2019 Stg£</i>	<i>2018 Stg£</i>
Raw materials	1,757,803	1,357,176
Finished goods	2,252,073	2,060,905
	<hr/>	<hr/>
	4,009,876	3,418,081
	<hr/>	<hr/>

The replacement cost of stocks does not differ significantly from the figures shown above.

NOTES TO THE FINANCIAL STATEMENTS
29 December 2019 (Continued)

9.	DEBTORS (amounts falling due within one year)	2019 Stg£	2018 Stg£
	Trade debtors	11,635,819	11,716,023
	Due from group undertakings - trade	270,810	211,911
	Due from group undertakings - non trade	1,250,000	1,600,000
	Prepayments and accrued income	74,589	88,158
	VAT	342,169	662,293
	Derivative asset (Note 13)	22,076	–
		<u>13,595,463</u>	<u>14,278,385</u>
	DEBTORS (amounts falling due after more than one year)		
	Due from group undertakings - non trade	200,000	–
		<u>200,000</u>	<u>–</u>
		<u>13,795,463</u>	<u>14,278,385</u>

Amounts due from group undertakings are on demand. These amounts have been classified as due after more than one year as they are not anticipated to be received within twelve months from the Balance Sheet date.

10.	CREDITORS (amounts falling due within one year)	2019 Stg£	2018 Stg£
	Trade creditors	6,297,428	5,910,338
	Amount due to group undertakings - trade	3,315,939	3,578,145
	Amount due to group undertakings - non trade	7,971,930	8,771,930
	Bank loans (Note 12)	–	5,100,000
	Other taxation and social security	133,679	137,330
	Accruals	532,288	826,526
	Corporation tax	97,151	43,099
	Derivative liability (Note 13)	26,143	22,354
		<u>18,374,558</u>	<u>24,389,722</u>
11.	CREDITORS (amounts falling due after more than one year)	2019 Stg£	2018 Stg£
	Bank borrowings (Note 12)	<u>5,100,000</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

29 December 2019 (Continued)

12.	BANK BORROWINGS	2019 Stg£	2018 Stg£
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Bank loans are repayable as follows:

Within one year	–	5,100,000
Between one and two years	–	–
Between two and five years	5,100,000	–
	<u>5,100,000</u>	<u>–</u>

The bank loans and overdrafts are secured by fixed and floating charges over the assets of the company. The interest rate ranges between 1.35% and 2.85%. The maturity date for the bank borrowings is 30 June 2022.

13. FINANCIAL INSTRUMENTS

Cash flow hedges

Foreign currency risk

Foreign exchange forward contracts measured at fair value through other comprehensive income are designated as hedging instruments in cash flow hedges of forecast purchases in Euro. The probability of these forecast transactions in the coming months could be seen as uncertain given the potential impact of COVID-19 as discussed in the “Business Review” in our Directors’ Report. However, this pandemic is a non-adjusting, post balance sheet event and as such, the amount recorded in the profit and loss account due to hedge effectiveness remains unchanged. While the company also enters into other foreign exchange forward contracts with the intention of reducing the foreign exchange risk of expected sales and purchases, these other contracts are not designated in hedge relationships and are measured at fair value through profit or loss. The foreign exchange forward contract balances vary with the level of expected foreign currency sales and purchases and changes in foreign exchange forward rates.

Foreign currency forward contracts designated as hedging instruments

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
	£	£	£	£
Fair value	<u>22,076</u>	<u>26,143</u>	<u>–</u>	<u>22,354</u>

Ineffectiveness of €nil (2018: €nil) has been recognised in respect of the cash flow hedges in 2019.

At the balance sheet date, the company has forward currency contracts in place to purchase Euro. The sterling equivalent of these contracts is Stg£3,064,673 (2018: Stg£353,357).

NOTES TO THE FINANCIAL STATEMENTS
29 December 2019 (Continued)

14.	PROVISIONS FOR LIABILITIES AND CHARGES	2019 Stg£	2018 Stg£
	<i>Deferred tax</i>		
	At beginning of year	539,858	616,160
	Charged to profit and loss	116,841	(76,302)
	Charged to other comprehensive income	3,911	–
	At end of year	<u>660,610</u>	<u>539,858</u>
	<i>Analysis</i>		
	Deferred taxation provided for in the financial statements is set out below:	2019 Stg£	2018 Stg£
	Accelerated capital allowances	659,528	547,370
	Short term timing differences	1,082	(7,512)
		<u>660,610</u>	<u>539,858</u>

15. PENSIONS

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in independently administered funds. The pension cost charge represents contributions payable by the company to the scheme and to employees. Total contributions in the year amounted to Stg£165,576 (2018: Stg£135,614).

16.	LEASING COMMITMENTS	2019		2018	
		<i>Other</i>	<i>Land and</i>	<i>Other</i>	<i>Land and</i>
		<i>Stg£</i>	<i>Buildings</i>	<i>Stg£</i>	<i>Buildings</i>
			<i>Stg£</i>		<i>Stg£</i>
	Within 1 year	96,882	108,828	116,081	108,828
	Within 2 to 5 years	71,325	435,312	166,526	435,312
	After more than 5 years	–	217,656	–	326,484
		<u>168,207</u>	<u>761,796</u>	<u>282,607</u>	<u>870,624</u>

NOTES TO THE FINANCIAL STATEMENTS 29 December 2019 (Continued)

17.	CALLED UP SHARE CAPITAL	2019 Stg£	2018 Stg£
	<i>Authorised:</i>		
	160,000 'A' ordinary shares of Stg£0.10 each	16,000	16,000
	141,887 'B' ordinary shares of Stg£0.10 each	14,189	14,189
	10,000 preference shares of Stg£1 each	10,000	10,000
	50,000 'B' preference shares of Stg£1 each	50,000	50,000
		<hr/>	<hr/>
		90,189	90,189
		<hr/>	<hr/>
	<i>Allotted, called up and fully paid:</i>		
	160,000 'A' ordinary shares of Stg£0.10 each	16,000	16,000
	141,887 'B' ordinary shares of Stg£0.10 each	14,189	14,189
		<hr/>	<hr/>
		30,189	30,189
		<hr/>	<hr/>

The Ordinary 'A' and 'B' Shares rank pari passu in all respects.

18. RESERVES

Share premium account

This reserve records the amount above the nominal value received for shares sold, less transaction costs.

Other undenominated capital

This reserve records the nominal value of shares cancelled by the company.

19. PARENT UNDERTAKINGS AND CONTROLLING PARTIES

The company's immediate parent company and controlling party is Dawn Farm Foods Limited, a company incorporated in the Republic of Ireland. The ultimate controlling party and parent undertaking and the parent undertaking of both the largest and smallest groups of undertakings of which the company is a member and for which group financial statements are drawn up is Arrow Group Limited, a company incorporated in the Republic of Ireland. Group financial statements are prepared for Arrow Group Limited and are available in the Irish Companies Registration Office.

20. CONTINGENT LIABILITIES

The company has guaranteed the bank borrowings of a number of group companies under the terms of a group banking facility.

NOTES TO THE FINANCIAL STATEMENTS

29 December 2019 (Continued)

21. TRANSACTIONS WITH CONNECTED PARTIES

Sales and debtors include transactions and balances with other Arrow Group Companies as follows:

	2019		2018	
	<i>Sales</i>	<i>Debtors</i>	<i>Sales</i>	<i>Debtors</i>
	£	£	£	£
Fellow Arrow Group companies	175,375	1,720,810	654,739	1,811,911

Purchases and creditors include transactions and balances with other Arrow Group companies as follows:

	2019		2018	
	<i>Purchases</i>	<i>Creditors</i>	<i>Purchases</i>	<i>Creditors</i>
	£	£	£	£
Fellow Arrow Group companies	1,404,043	11,287,869	1,326,327	12,350,075

22. EVENTS SINCE THE BALANCE SHEET DATE

The spread of the COVID-19 outbreak has caused severe disruptions in many economies, including those impacting the company and its customers, which are facing into a recession of an undetermined extent and length.

We expect that the most significant potential impact on our financial results and cashflows resulting from COVID-19 in 2020 would be in relation to supply chain, customer orders, given that the food service industry has been particularly affected by government restrictions across the UK, and order fulfilment.

In terms of impact on risks outlined above, the company has financial resources at its disposal with the availability of group bank facilities; and has considered, through working with customers and suppliers, the ability of customers to honour their obligations and the availability of appropriate supplier credit terms; and as a consequence, the directors believe that the company is well placed to manage the impact of COVID-19 and indeed all of its business risks successfully.

Other than in relation to COVID-19, there were no significant events between the balance sheet date and the date signing the financial statements, affecting the company, which require adjustment to or disclosure in the financial statements.

23. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on: 15 May 2020.