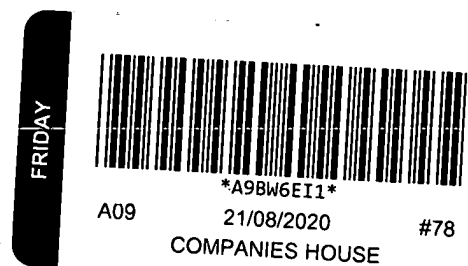


Broomco (3554) Limited

**Directors' report, strategic report and
consolidated financial statements**

Registered number 05234802

31 December 2019



Broomco (3554) Limited
Company information

Directors

T Malkoski
H Shimizu
S Shimizu

Secretary

R Purcell

Auditor

Ernst & Young LLP
24 Marina Court
Hull
HU1 1TJ

Bankers

HSBC Bank Plc
33 Park Row
Leeds
West Yorkshire
LS1 1LD

Solicitors

Squire Patton Boggs (UK) LLP
6 Wellington Place
Leeds
West Yorkshire
LS1 4AP

Registered office

Unit 26, Brighton Street Industrial Estate
Freightliner Road
Hull
North Humberside
HU3 4UN

Registered number

05234802

Strategic report

The directors present their strategic report for the year ended 31 December 2019.

Principal activities

The company's principal activity is that of a holding company and managing the activities of the company and group.

The group's principal activities are the manufacture and sale of ingredients into freeze dried foods and converted bread products, servicing global markets with a focus on health and wellbeing.

The business model

Our objectives are to be the leading technology-led ingredients supplier globally and to profitably grow the business, through further development of our strong relationships with major food businesses around the world. The group services the US, Europe and Asia markets, with each at different stages of maturity and providing growth opportunities in existing and new markets.

Fulfilling the needs of our customers requires the group to supply products of the highest quality at a competitive price. In order to ensure these requirements, as well as security of supply and high food safety standards, the business is vertically structured and in many cases is able to supply the raw or base material for the finished product from within the group or from an international pre-qualified supply chain.

The group continues to invest in new product developments and innovations that are key in helping the group to grow the business and expand into new market sectors.

Review of the business

We have identified the below measures that are important to the group's financial performance and operational excellence and to our members, customers, suppliers and employees. The Board considers these in assessing the achievement of the group's strategy:

	2019	2018	KPI calculation notes
	\$000	\$000	
Turnover	146,278	142,776	As per the profit and loss account
Operating EBITDA	10,198	4,311	P&L Operating profit before exceptional items + Note 3 (depreciation + amortisation)
Net debt (owed to parent)	(71,182)	(74,182)	Note 17 (loan from parent company) + Note 16 (loan from parent company)
Net external cash/(debt)	4,730	(3,089)	Note 16 (other loans) + Note 15 (net cash) + Note 16 (finance leases) + Note 14 (loan notes) + Note 16 (loan notes)

The directors are pleased to report an increase in turnover during the year, largely driven by strong sales in North America.

This increase in sales, along with strong cost control, lead to an increase in gross margin percentage from 14.6% to 18.4%. Further to this, reductions in administrative expenses helped the group to achieve a significant improvement in operating EBITDA.

In the prior year, the group incurred \$1.7m of exceptional administrative expense, the majority of which related to costs incurred as a result of unexpected challenges and complications in developing and integrating a new product.

A focus on the working capital cycle, namely reductions in inventories and trade receivables, much improved cash generation during the year, allowing the business to close the year with a net cash balance, after making repayments of \$3m on its loans to its parent company.

The directors remain optimistic for 2020 and expect the business to remain profitable. The impact of COVID-19 is explained in further detail in note 25.

Strategic report (*continued*)

Principal risks and uncertainties

Strategic, financial, commercial, operational, social, environmental and ethical risks are all considered as part of the group and company's controls, which are designed to manage rather than eliminate the risk of failure to achieve business objectives. Therefore they can only provide reasonable, not absolute, assurance against material misstatement or loss.

The specific risks and uncertainties faced by the group, in line with the rest of the food manufacturing sector, are raw material supply, food quality and hygiene, margins, profitability and competition.

In general, principal risks and uncertainties facing the group are broadly grouped as - competitive, legislative, supply and financial instrument risk.

Competitive risks

The group is reliant on certain major multinationals for contracts which are subject to periodic competitive tender, based on financial, quality and performance criteria. To date the business has been successful in securing and retaining a number of these contracts and has invested significantly in quality systems and processes.

Legislative risks

The group operates internationally and needs to comply with food and ingredients standards in those markets.

In the UK and Europe, food ingredients must be manufactured to EU standards. In the United States the Food and Drug Administration lays down compliance standards for all products entering that market. All these standards are subject to continuous revision and any new directive may have a material impact on the ability of the group to manufacture and supply products at a profit. In addition compliance imposes costs and failure to comply with the standards could affect the group's ability to operate. Management have mitigated exposure to this risk through quality control processes and supplier screening.

Outside the above markets, the equivalent standards are subject to individual State legislatures. These standards vary considerably between individual States.

Supply risks

The group is required to source ingredients, the price and availability of which are influenced by numerous market factors. This risk is managed through the group's fruit growing programme, and through the use of forward purchasing contracts. Fruit is purchased around the world, subject to growing seasons, with the supply chain balanced to ensure the business is not exposed to overdependence on one supplier or region.

Strategic report (*continued*)

Principal risks and uncertainties (*continued*)

Financial instrument risks

The group has established a risk and financial management framework whose primary objectives are to protect the group from events that hinder the achievement of the group's performance objectives.

The objectives aim to limit undue counterparty exposure, ensure sufficient working capital exists and monitor the management of risk at a business unit level.

Use of derivatives

The group manages its foreign exchange risk through maintaining as far as possible a balanced portfolio of currencies. Due to the global nature of the group, there is some degree of natural hedging arising from normal trading operations. Forward foreign exchange swaps are arranged where there are recognised imbalances in future currency flows. The group does not engage in foreign currency speculation. The accounting policy for foreign currencies is set out in note 1 to the accounts.

The group uses forward foreign currency contracts to reduce exposure to the variability of foreign exchange rates.

Exposure to price, credit, liquidity and cash flow risk

The group has policies to manage price, credit, liquidity and cash flow risk and the board discusses credit risk and management on a regular basis.

Price and credit risk are managed by contracts with customers and suppliers. Price risk arises on financial instruments because of changes in, for example, commodity prices or equity prices. Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party failing to discharge an obligation. Group policies are aimed at minimising such losses and require that deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures. Details of the group's debtors are shown in note 14 to the financial statements.

- Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The group aims to mitigate liquidity risk by managing cash generation by its operations and applying cash collection targets throughout the group.
- Cash flow risk is managed by use of foreign exchange as explained above. Cash flow risk is the risk of exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability.
- The group also manages liquidity risk via revolving credit facilities and long term debt provided by its parent company.

Strategic report (continued)

Section 172 – Engagement with stakeholders

Stakeholder	Why we engage	How we engage	Key topics of discussion	Outcomes and actions
Investors/ members	Access to capital is important for the success of the business. Through our engagement activities, we obtain investor buy-in to our strategic objectives and how we go about executing them.	<ul style="list-style-type: none"> Both shareholders are represented on the Board holding 4 of the 5 seats, with the 5th seat held by the CEO A calendar of key topics is agreed and followed throughout the year 	<ul style="list-style-type: none"> Annual business plan approval Strategic plan approval Annual incentive plan approval Debt profile Key management appointments New product innovation 	<ul style="list-style-type: none"> Agreement on activity and focus of R&D activities Agreement on which markets and products should be our focus Alignment of internal resources with business priorities and needs
Workforce	The company's long-term success is predicated on the commitment and contribution of our workforce to our purpose and its demonstration of our values on a daily basis.	<ul style="list-style-type: none"> Daily, Weekly, Monthly and Annual Communication meetings and presentations in all locations Shop floor video displays Company video All employee CEO message COVID-19 management and communication 	<ul style="list-style-type: none"> Business performance and objectives Team KPIs Continuous improvement contributions Safety Training Best practice Real time information sharing and employee recognition 	<ul style="list-style-type: none"> Increased training - Employees trained in Lean Six Sigma to different levels (White/Yellow/Green Belt, with Black Belts to follow in 2020) Employee appreciation days Improved team working and engagement Lower employee turnover Reduced near misses & accidents Continuous improvement in key manufacturing metrics Improved product quality and customer service
Suppliers	Our suppliers are fundamental to the quality of our products and to ensuring that as a business we meet the high standards of conduct that we set ourselves.	<ul style="list-style-type: none"> Supplier performance monitoring & feedback processes Annual supplier reviews Supplier selection process 	<ul style="list-style-type: none"> Payment terms Raw material cost and stock holding Raw material & packaging quality standards and industry accreditations (eg. BRC) New process & product development Developing strategic global partnership alliances 	<ul style="list-style-type: none"> Agreed payment terms Training and support given to new and existing suppliers Supplier initiated cost improvement opportunities Improved product quality, leading to improved drying and packaging yields Improve on time in full (OTIF) deliveries Wider diversity of products & potential customers Increase diverse global sourcing reducing supply risk & increasing contingency options
Customers	Engagement allows us to better understand our customers' needs and how we can deliver continuous improvement in customer service. We strive to be the supplier of choice for key customers.	<ul style="list-style-type: none"> Implemented global key account management structure Daily/weekly calls with key customers Established multiple touchpoints with customers, across relevant departments 	<ul style="list-style-type: none"> New product innovation Customer satisfaction (OTIF metrics) Solutions provided globally 	<ul style="list-style-type: none"> New product launches in new markets and with new customers Good OTIF for key customers Adjust the recruitment policy to obtain appropriate R&D skills across sales functions
Community and environment	We are aware of our impact on local communities and our responsibilities towards environmental sustainability.	<ul style="list-style-type: none"> Dialogue with local government/authorities in the locations we operate Working with our key growers and our suppliers 	<ul style="list-style-type: none"> Local employee engagement and recruitment Providing support to our key growers and our suppliers Environmental and waste management 	<ul style="list-style-type: none"> Supplier engagement has enhanced sustainability Monitoring and reporting of environmental footprint

Strategic report (*continued*)

Section 172 – Principal decisions

During 2019, the board decided to make loan repayments to the parent company of \$3m. This was considered in the best interests of the investors, as stakeholders, by returning some of the funds they had invested in the group. The group had generated a reasonable cash balance and its forward looking projections looked healthy and after significant discussion and consideration of other uses it was decided the best use of the available cash was to pay down debt and reduce interest cost. The board took into account the seasonality of the cash cycle, as well as payments due to suppliers, another key stakeholder.

Whilst the company still has a significant debt level, it will continue to discuss the best use of any surplus cash on a regular basis, taking account of the different needs of the stakeholder groups. The budget that was approved for 2020 considers a modest repayment of debt whilst continuing to fund capital expenditure to grow the business and improve efficiencies.

Future developments

The markets in which the group operates remain highly competitive with continued price pressures from customers as well as significant upward pressure in raw material costs and other input costs. The group continues to trade in a difficult environment for food manufacturers however the directors remain cautiously optimistic about the future. The group continues with its efforts to further develop and expand the product and customer base of the business. The impact of COVID-19 is explained in further detail in note 25.

By order of the board



T Malkoski
Director

30 June 2020

Directors' report

The directors present their directors' report and the audited financial statements of the group for the year ended 31 December 2019.

Going concern

The financial statements have been prepared on the going concern basis.

As shown in the accompanying financial statements, the group made a profit after tax for the year of \$93,000 (2018: loss \$7,195,000) and generated a large cash inflow of \$7,786,000 (2018: outflow \$1,508,000), as well as having net current assets. Despite this, the group has net liabilities of \$6,170,000 (2018: \$6,203,000).

The group's financial liabilities are in the form of loans of \$71.2 million from its parent company, Nagatanien Holdings Co. Limited, and loan notes of \$6.0 million. The loans from Nagatanien Holdings Co. Limited are due for repayment between March 2020 and December 2029.

The most significant emerging risk is the ongoing outbreak of the Coronavirus (COVID-19).

COVID-19 is a new and evolving crisis, which has been labelled a pandemic by many countries and institutions, including the World Health Organization. The global economic impact of COVID-19 is yet to be determined, but in a short period of time, has severely damaged the global economy as businesses cease operations and populations are ordered to stay home to slow the spread.

We are monitoring the situation carefully as it evolves to understand the potential impact on our people and our business. This has been a topic on daily management calls and monthly board meetings.

Key risks and their impact and mitigation are summarised below:

- **the global economic impact** – whilst global spending is down, consumer spending is up in the key segment of grocery sales
- **employee and product safety** – steps were taken to stop unnecessary travel, implement home working where possible and social distancing in manufacturing facilities, enabling continuity of production
- **supply chain and operations** – through careful planning, continuity of supply has not been affected
- **key customers and sales impact** – the business has seen a strong start to 2020, partly as a result of increased grocery sales, with more meals consumed in-house, and the result of consumer stock-piling. Whilst several customers are expected to delay new product launches, annual sales are expected to grow in line with budget.

Based on the current position and factors considered above, COVID-19 is not expected to prevent the company from continuing to trade as a going concern.

The group has received confirmation from its parent company that it will provide financial support for the foreseeable future and at least the next 12 months.

The directors confirm that after reviewing existing financial resources and projected cash flow, and considering current and anticipated market conditions, they have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future and to meet liabilities as they fall due. For these reasons, they continue to adopt the going concern basis in preparing these financial statements.

Research and development

Product improvement and development remains important in order to satisfy customer and market demands and is an integral part of the group's marketing strategy.

Directors' report *(continued)*

Proposed dividend

The directors do not recommend the payment of a dividend (2018: \$Nil).

Directors

The directors who held office during the year and up to the date of signing the financial statements, unless otherwise noted, were as follows:

T Kogure (resigned 26 June 2020)
T Malkoski
P Niklai (resigned 26 June 2020)
H Shimizu
S Shimizu

Disclosure of information to auditor

Each person who was a director at the time this report was approved confirms that:

- so far as he is aware, there is no relevant audit information of which the company's auditor is unaware; and
- he has taken all the 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.

Third party indemnity provisions

The directors are indemnified against any claim first made against them for any wrongful act in their capacity as a director, officer or employee of the company.

Employment of disabled persons and diversity policy

Within the grounds of commercial confidentiality, information is disseminated to all levels of staff about matters that affect the progress of the group and are of interest and concern to them as employees. The company's policy is to adopt an open management style, thereby encouraging informal consultation at all levels about aspects of the company's operations. Employment policies are designed to provide equal opportunities irrespective of colour, ethnic or natural origin, nationality, sex, religion, marital or disabled status. Full consideration is given to applications for employment by and the continuing employment, training and career development of disabled people.

Political contributions

Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the year.

Auditor

Pursuant to Section 487 of the Companies Act 2006, Ernst & Young LLP were re-appointed as auditors of the company.

This report was approved by the board on 30 JUNE 2020 and signed on its behalf.



T Malkoski
Director

Broomco (3554) Limited

Statement of directors' responsibilities in respect of the strategic report, the directors' report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BROOMCO (3554) LIMITED

Opinion

We have audited the financial statements of Broomco (3554) Ltd ('the parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019 which comprise the Consolidated profit and loss account and other comprehensive income, Consolidated balance sheet, Company balance sheet, Consolidated statement of changes in equity, Company statement of changes in equity, Consolidated statements of cash flows and the related notes 1 to 26, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and includes 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 group's and of the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter paragraph

We draw attention to Note 1.3 and 25 of the financial statements, which describes the economic and social consequences the group is facing as a result of COVID-19 which is impacting supply chains, consumer demand, personnel available for work and or being able to access offices. Our opinion is not modified in respect of this matter.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Other information

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

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

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

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BROOMCO (3554) LIMITED (continued)

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

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

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Richard Frostick (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Hull

2020

**Consolidated profit and loss account and other comprehensive income
for the year ended 31 December 2019**

	<i>Note</i>	2019 \$000	2018 \$000
Turnover	2	146,278	142,776
Cost of sales		(119,338)	(121,904)
Gross profit		26,940	20,872
Selling and distribution costs	3	(6,272)	(6,441)
Administrative expenses	3	(16,579)	(18,055)
Operating (loss)/profit		4,089	(3,624)
Analysis of operating (loss)/profit:			
Operating (loss)/profit before exceptional items		4,089	(1,868)
Exceptional items (net)	3	-	(1,756)
		4,089	(3,624)
Interest receivable and similar income	6	92	91
Interest payable and similar charges	7	(2,676)	(2,445)
(Loss)/profit on ordinary activities before taxation		1,505	(5,978)
Tax on profit/(loss) on ordinary activities	8	(1,412)	(1,217)
Profit/(loss) for the financial year		93	(7,195)
Profit/(loss) for the financial year –attributable to owners of the parent		93	(7,195)
Profit/(loss) for the financial year		93	(7,195)
Other comprehensive (expense)/income			
Re-measurement of the net defined benefit pension liability		-	49
Foreign currency translation differences – foreign operations		(60)	(1,399)
Other comprehensive (expense)/income for the year, net of income tax		(60)	(1,350)
Attributable to owners of the parent		(60)	(1,350)
Total comprehensive income/(expense) for the year		33	(8,545)

The notes on pages 18 to 49 form part of these financial statements.

The loss for the year arises from the group's continuing operations.

Consolidated balance sheet
at 31 December 2019

	<i>Note</i>	2019	2019	2018	2018
		\$000	\$000	\$000	\$000
Fixed assets					
<i>Intangible assets</i>					
Goodwill	10	12,041		13,644	
Other intangibles	10	1,666		1,864	
Tangible assets	9	28,869		30,620	
			42,576		46,128
Current assets					
Stocks	13	27,486		33,540	
Debtors: falling due within one year	14	15,151		19,435	
Debtors: falling due after one year	14	3,599		3,599	
Cash at bank and in hand	15	10,186		2,400	
			56,422		58,974
Creditors: falling due within one year	17		(49,616)		(52,770)
Net current assets			6,806		6,204
Total assets less current liabilities			49,382		52,332
Creditors: falling due after more than one year					
Interest bearing loans and borrowings	16	(51,146)		(54,766)	
Finance lease creditor	16	(3,055)		(3,086)	
Provisions for liabilities	18	(1,351)		(683)	
			(55,552)		(58,535)
Net liabilities			(6,170)		(6,203)
Capital and reserves					
Called up share capital	20		-		-
Share premium	20		26,856		26,856
Capital redemption reserve	20		357		357
Profit and loss account	20		(33,383)		(33,416)
Total deficit			(6,170)		(6,203)

Company registered number: 05234802

The notes on pages 18 to 49 form part of these financial statements.

These financial statements were approved by the board of directors on 30 JUNE 2020 and were signed on its behalf by:




T Malkoski
Director

Company balance sheet
at 31 December 2019

	<i>Note</i>	2019 \$000	2019 \$000	2018 \$000	2018 \$000
Fixed assets					
Investments	11		74,848		74,848
Current assets					
Amounts due from group undertakings	14	92,673		63,151	
Other debtors	14	13		4	
Cash at bank		-		1,424	
			92,686		64,579
Creditors: amounts falling due within one year	17		(59,897)		(25,879)
Net current assets			32,789		38,700
Total assets less current liabilities			107,637		113,548
Creditors: amounts falling due after more than one year					
Interest bearing loans and borrowings	16		(45,146)		(48,764)
Net assets			62,491		64,784
Capital and reserves					
Called up share capital	20		-		-
Share premium	20		26,856		26,856
Capital redemption reserve	20		357		357
Profit and loss account	20		35,278		37,571
Total equity			62,491		64,784

The notes on pages 18 to 49 form part of these financial statements.

These financial statements were approved by the board of directors on **30 JUNE** 2020 and were signed on its behalf by:



T Malkoski
Director

Company registered number: 05234802

Consolidated statement of changes in equity

	Called up share capital \$000	Share premium \$000	Capital redemption reserve \$000	Profit and loss account \$000	Total equity/ (deficit) \$000
Balance at 1 January 2018	-	26,856	357	(24,871)	2,342
Loss for the year	-	-	-	(7,195)	(7,195)
Other comprehensive expense	-	-	-	(1,350)	(1,350)
Total comprehensive expense for the period	-	-	-	(8,545)	(8,545)
Balance at 31 December 2018 and 1 January 2019	-	26,856	357	(33,416)	(6,203)
Profit for the year	-	-	-	93	93
Other comprehensive expense	-	-	-	(60)	(60)
Total comprehensive income for the period	-	-	-	33	33
Balance at 31 December 2019	-	26,856	357	(33,383)	(6,170)

The notes on pages 18 to 49 form part of these financial statements.

Company statement of changes in equity

	Called up share capital \$000	Share premium \$000	Capital redemption reserve \$000	Profit and loss account \$000	Total equity \$000
Balance at 1 January 2018	-	26,856	357	39,538	66,751
Loss for the year	-	-	-	(1,967)	(1,967)
Total comprehensive expense for the period	-	-	-	(1,967)	(1,967)
Balance at 31 December 2018 and 1 January 2019	-	26,856	357	37,571	64,784
Loss for the year	-	-	-	(2,293)	(2,293)
Total comprehensive expense for the period	-	-	-	(2,293)	(2,293)
Balance at 31 December 2019	-	26,856	357	35,278	62,491

The notes on pages 18 to 49 form part of these financial statements.

Consolidated statements of cash flows

	Note	Year ended 31 December 2019	Year ended 31 December 2018
		\$000	\$000
Cash flows from operating activities			
Profit/(loss) for the financial year		93	(7,195)
Adjustments for:			
Depreciation and amortisation	9/10	6,109	6,269
Foreign exchange movements		232	(1,008)
Financial income	6	(92)	(91)
Financial expense	7	2,676	2,445
Taxation	8	1,412	1,217
Loss on sale of fixed assets		-	49
		<u>10,430</u>	<u>1,686</u>
(Increase) / decrease in trade and other receivables		4,216	(2,119)
(Increase) / decrease in inventories		6,054	(4,428)
Increase / (decrease) in trade and other payables		(3,759)	376
Increase / (decrease) in provisions		668	(222)
Increase / (decrease) in financial instruments		(640)	889
		<u>6,539</u>	<u>(5,504)</u>
Tax paid		(940)	(1,518)
Net cash generated from/ (used in) operating activities		<u>16,029</u>	<u>(5,336)</u>
Cash flows from investing activities			
Interest received		92	91
Acquisition of property, plant and equipment		(2,720)	(3,953)
Acquisition of other intangible assets		(129)	(46)
Net cash used in investing activities		<u>(2,757)</u>	<u>(3,908)</u>
Cash flows from financing activities			
Proceeds from new loans		-	10,000
Repayment of loans		(3,000)	-
Interest paid		(2,094)	(1,816)
Payment of finance lease liabilities		(392)	(448)
Net cash from financing activities		<u>(5,486)</u>	<u>7,736</u>
Net increase/ (decrease) in cash and cash equivalents		7,786	(1,508)
Cash and cash equivalents at beginning of year		2,400	3,908
Cash and cash equivalents at end of year	15	<u>10,186</u>	<u>2,400</u>

The notes on pages 18 to 49 form part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

1.1 Basis of preparation

Broomco (3554) Limited (the “company”) is a company limited by shares and incorporated and domiciled in the UK. The group financial information consolidates those of the company and its subsidiaries (together referred to as the “group”).

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (“FRS 102”). The presentation currency of these financial statements is the US Dollar. All amounts in the financial statements have been rounded to the nearest \$1,000.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 26.

1.2 Measurement convention

The financial information has been prepared on the historical cost basis except that derivative financial instruments are stated at their fair value.

1.3 Going concern

The financial statements have been prepared on the going concern basis.

As shown in the accompanying financial statements, the group made a profit after tax for the year of \$93,000 (2018: loss \$7,195,000) and generated a large cash inflow of \$7,786,000 (2018: outflow \$1,508,000), as well as having net current assets.

The group’s financial liabilities are in the form of loans of \$71.2 million from its parent company, Nagatanien Holdings Co. Limited, and loan notes of \$6.0 million. The loans from Nagatanien Holdings Co. Limited are due for repayment between March 2020 and December 2029.

The most significant emerging risk is the ongoing outbreak of the Coronavirus (COVID-19).

COVID-19 is a new and evolving crisis, which has been labelled a pandemic by many countries and institutions, including the World Health Organization. The global economic impact of COVID-19 is yet to be determined, but in a short period of time, has severely damaged the global economy as businesses cease operations and populations are ordered to stay home to slow the spread.

We are monitoring the situation carefully as it evolves to understand the potential impact on our people and our business. This has been a topic on daily management calls and monthly board meetings.

Key risks and their impact and mitigation are summarised below:

- **the global economic impact** – whilst global spending is down, consumer spending is up in the key segment of grocery sales
- **employee and product safety** – steps were taken to stop unnecessary travel, implement home working where possible and social distancing in manufacturing facilities, enabling continuity of production
- **supply chain and operations** – through careful planning, continuity of supply has not been affected
- **key customers and sales impact** – the business has seen a strong start to 2020, partly as a result of increased grocery sales, with more meals consumed in-house, and the result of consumer stock-piling. Whilst several customers are expected to delay new product launches, annual sales are expected to remain in line with budget.

Notes *(continued)*

Accounting policies *(continued)*

1.3 *Going concern* *(continued)*

Based on the current position and factors considered above, COVID-19 is not expected to prevent the company from continuing to trade as a going concern.

The group has received confirmation from its parent company that it will provide financial support for the foreseeable future and at least the next 12 months.

The directors confirm that after reviewing existing financial resources and projected cash flow, and considering current and anticipated market conditions, they have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future and to meet liabilities as they fall due. For these reasons, they continue to adopt the going concern basis in preparing these financial statements.

1.4 *Basis of consolidation*

Subsidiaries

Subsidiaries are entities controlled by the group. Control exists when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of all wholly owned subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

1.5 *Foreign currency*

Transactions in foreign currencies are translated to the respective functional currencies of group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account except for differences arising on the retranslation of items which are fair valued with changes taken to other comprehensive income, which are recognised in other comprehensive income.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the group's presentational currency US Dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income.

The functional currency of the group is the US Dollar.

Notes (continued)

1 Accounting policies (continued)

1.6 Classification of financial instruments issued by the Group

In accordance with FRS 102.22, financial instruments issued by the company (or group, as the case may be) are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company (or group) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company (or group); and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in this financial information for called up share capital and share premium account exclude amounts in relation to those shares.

1.7 Basic financial instruments

Trade and other debtors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Investments in subsidiaries

Investments in subsidiaries are accounted for under the equity method and are carried at cost less impairment in accordance with FRS 102.14.8.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Notes (continued)

1 Accounting policies (continued)

1.8 Other financial instruments

Financial instruments not considered to be basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of basic financial instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except in relation to investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably are be measured at cost less impairment.

The group does not apply hedge accounting and has not applied hedge accounting retrospectively in these financial statements relating to hedges that were no longer in place at the transition date, in accordance with the exemption from retrospective application of hedge accounting specified by FRS102.35.10.(t).ii.

1.9 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described at 1.17 below.

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- freehold buildings between 20 and 50 years
- leasehold buildings over the life of the lease
- plant and equipment between 5 and 15 years
- fixtures and fittings between 5 and 15 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

Notes (continued)

1 Accounting policies (continued)

1.10 Business combinations

Business combinations are accounted for using the purchase method as at the acquisition date, which is the date on which control is transferred to the company.

At the acquisition date, the company recognises goodwill at the acquisition date as:

- the fair value of the consideration (excluding contingent consideration) transferred; plus
- estimated amount of contingent consideration (see below); plus
- the fair value of the equity instruments issued; plus
- directly attributable transaction costs; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities and contingent liabilities assumed.

When the excess is negative, this is recognised and separately disclosed within reserves as the excess over cost of an acquired interest in a subsidiary (negative goodwill).

Consideration which is contingent on future events is recognised based on the estimated amount if the contingent consideration is probable and can be measured reliably. Any subsequent changes to the amount are treated as an adjustment to the cost of the acquisition.

1.11 Intangible assets, goodwill and negative goodwill

Goodwill

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses. Goodwill is allocated to cash-generating units or group of cash-generating units that are expected to benefit from the synergies of the business combination from which it arose.

Research and development

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Development activities involve a plan or design for the production of new or substantially improved products or processes. Expenditure on development activities will be capitalised if: the product or process is technically and commercially feasible; the group intends, has the technical ability and has sufficient resources to complete development; future economic benefits are probable and; the group can measure reliably the expenditure attributable to the intangible asset during its development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Other development expenditure is recognised in the income statement as an expense as incurred.

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the group are stated at cost less accumulated amortisation and less accumulated impairment losses.

Notes (continued)

1 Accounting policies (continued)

1.11 Intangible assets, goodwill and negative goodwill (continued)

Amortisation

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Trade names - 3 to 20 years
- Customer relationships - 3 to 12 years
- Other purchased intellectual property - 3 to 12 years

Goodwill is amortised on a straight line basis over its useful life. Goodwill has no residual value. The finite useful life of goodwill is estimated to be 20 years.

The company reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Goodwill and other intangible assets are tested for impairment in accordance with FRS102 Section 27 'Impairment of Assets' when there is an indication that goodwill or an intangible asset may be impaired.

1.12 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

1.13 Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows. The effect of discounting is not material. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the company's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units ("CGU") that are expected to benefit from the synergies of the combination. For the purpose of goodwill impairment testing, if goodwill cannot be allocated to individual CGUs or groups of CGUs, the company tests the impairment of goodwill by determining the recoverable amount of the entity in its entirety, including the integrated acquired operations.

Notes *(continued)*

1 Accounting policies *(continued)*

1.13 Impairment excluding stocks and deferred tax assets *(continued)*

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. No impairments have been recognised in the periods presented.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.14 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan which defines the pension benefit that the employee will receive on retirement, dependant on several factors including length of service and remuneration. The liability recognised in the balance sheet is the present value of the obligation less the fair value of any plan assets at the reporting date. Annually, the group engages independent actuaries to calculate the obligation. Actuarial gains and losses are charged or credited to other comprehensive income. Actuarial gains and losses are charged to other comprehensive income. Costs arising from employee service, benefit changes, curtailments and settlements are recognised in the profit and loss account.

Termination benefits

Termination benefits are recognised as an expense when the company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

1.15 Provisions

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

1.16 Turnover

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

Notes (continued)

1 Accounting policies (continued)

1.17 Expenses

Operating lease payments

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Exceptional items

Items which are significant by virtue of their size or nature and which are considered to be non-recurring are classified as exceptional operating expenses. Such items, which include for instance the costs of closing or opening factories, costs of significant restructurings and profits or losses or impairments made, are included within the appropriate consolidated Profit or Loss category but are highlighted separately in the notes to the financial statements. Exceptional operating items are excluded from the profit measures used by the board to monitor and measure the underlying performance of the group.

Government and other forms of grant

Government and other grants from third parties are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as a reduction in the costs incurred, on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed. Where the grant relates to an asset, it is recognised as a reduction in the initial cost of the related asset.

Interest receivable and Interest payable

Interest payable and similar charges comprise interest payable and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprise interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Notes (continued)

1 Accounting policies (continued)

1.18 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which 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. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

2 Turnover

All turnover is derived from the sale of goods.

Geographical analysis of turnover:

	Year ended 31 December 2019 \$000	Year ended 31 December 2018 \$000
UK	22,157	29,228
Europe	24,267	23,700
North America	85,356	71,168
Rest of World	14,498	18,680
	<hr/>	<hr/>
	146,278	142,776
	<hr/>	<hr/>

Notes *(continued)*

3 Expenses and auditor's remuneration

Profit and loss is after charging / (crediting) the following:

	Year ended 31 December 2019 \$000	Year ended 31 December 2018 \$000
Depreciation of tangible fixed assets	4,175	3,990
Amortisation of intangible assets	1,934	2,279
Loss on disposal of property, plant and equipment	35	49
Rentals under operating leases	1,171	1,112
Exceptional items	-	1,756
	<hr/>	<hr/>

In 2018, there were \$1.7m of exceptional administrative expenses in the year, the majority of which related to costs incurred as a result of unexpected challenges and complications in developing and integrating a new product.

Auditor's remuneration:

	2019 \$000	2018 \$000
Audit of these financial statements	272	165
Other audit services	-	-
Tax compliance services	-	-
Other tax advisory services	-	-
	<hr/>	<hr/>

Notes (continued)

4 Staff numbers and costs

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

	Year ended 31 December 2019 No.	Year ended 31 December 2018 No.
Sales	36	38
Manufacturing	271	279
Administration	184	181
	<u>491</u>	<u>498</u>

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2019 \$000	Year ended 31 December 2018 \$000
Wages and salaries	20,524	20,291
Social security costs	3,669	3,989
Contributions to defined contribution plans	269	202
	<u>24,461</u>	<u>24,482</u>

5 Directors' remuneration

	2019 \$000	2018 \$000
Directors' emoluments	546	540
Pension contributions	26	26
Other non-monetary benefits	24	38
	<u>596</u>	<u>604</u>

The amounts listed above relate to the one director paid by the company, being the highest paid director.

Shuei Shimizu, the director of Broomco (3554) Limited is employed by Nagatanien Holdings Co Ltd. and is remunerated by the company in respect of his services as an employee. He receives no emoluments for the services to this company as this is deemed a small part of his role.

Hiroshi Shimizu, the director of Broomco (3554) Limited is employed by Nagatanien Holdings Co Ltd. and is remunerated by the company in respect of his services as an employee. He receives no emoluments for the services to this company as this is deemed a small part of his role.

Tatsuo Kogure, the director of Broomco (3554) Limited is employed by INCJ, Ltd. and is remunerated by the company in respect of his services as an employee. He receives no emoluments for the services to this company as this is deemed a small part of his role.

Notes *(continued)*

5 Directors' remuneration (continued)

Peter Niklai, the director of Broomco (3554) Limited is employed by INCJ, Ltd. and is remunerated by the company in respect of his services as an employee. He receives no emoluments for the services to this company as this is deemed a small part of his role.

6 Interest receivable and similar income

	Year ended 31 December 2019 \$000	Year ended 31 December 2018 \$000
Interest income	92	91
Total interest income	92	91

7 Interest payable and similar charges

	Year ended 31 December 2019 \$000	Year ended 31 December 2018 \$000
Finance expense		
Total interest expense on financial liabilities measured at amortised cost	(2,315)	(2,083)
Finance leases	(361)	(362)
Total finance expense	(2,676)	(2,445)

Notes *(continued)*

8 Taxation

Total tax expense recognised in the profit and loss account, other comprehensive income and equity:

	Year ended 31 December 2019 \$000	Year ended 31 December 2018 \$000
Current tax expense		
Current year – UK tax	1,228	703
Current year – Foreign tax	105	254
Adjustments for prior periods	3	146
	<hr/>	<hr/>
Current tax expense	1,336	1,103
	<hr/>	<hr/>
Deferred tax expense		
Origination and reversal of temporary differences	73	128
Deferred tax rate change impact	4	2
Adjustments for prior periods	(1)	(16)
	<hr/>	<hr/>
Deferred tax expense	76	114
	<hr/>	<hr/>
Total tax expense on continuing operations	1,412	1,217
	<hr/>	<hr/>

Notes (continued)

8 Taxation (continued)

The Budget on 16 March 2016 announced changes in the main UK corporation tax rate. The rate (currently 19%) was expected to reduce to 17% from 1 April 2020.

This reduction in tax rates was included in the 2016 Finance Act which was substantively enacted for the purposes of UK GAAP (i.e. having completed its Commons stages) on 6 September 2016.

As a result of COVID-19, legislation will be introduced in the Finance Bill 2020 to amend the main rate of Corporation Tax to 19% for financial years 2020 and 2021. As this was not substantively enacted by the 31 December 2019, deferred tax balances have not been remeasured, and are measured at 17%.

Reconciliation of effective tax rate

	Year ended 31 December 2019 \$000	Year ended 31 December 2018 \$000
Profit/(loss) before taxation	1,505	(5,978)
Tax using the UK corporation tax rate for the relevant period 19% (2018: 19.25%)	286	(1,135)
Non-deductible expenses	291	155
Not taxable income	(1)	(241)
Interest restrictions	191	154
Deferred tax not recognised	716	3,501
Under provided in prior periods	(3)	107
Unutilised tax losses carried forward	-	159
Fixed asset differences	187	-
Difference on tax rate on deferred tax	4	(85)
Overseas tax rate differences and foreign exchange	23	(1,420)
Adjustment to tax rate in respect of previous periods	-	22
Withholding tax	(282)	-
Total tax expense on continuing operations	1,412	1,217

Notes *(continued)*

9 Tangible fixed assets

	Land and buildings \$000	Plant and equipment \$000	Fixtures and fittings \$000	Total \$000
Cost				
Balance at 1 January 2018	7,028	66,047	1,860	74,935
Additions	-	2,651	69	2,720
Disposals	(4)	(6,448)	(733)	(7,185)
Effect of movements in foreign exchange	(53)	(317)	59	(311)
Balance at 31 December 2019	6,971	61,933	1,255	70,159
Depreciation and impairment				
Balance at 1 January 2018	3,549	39,248	1,518	44,315
Depreciation charge for the period	177	3,890	108	4,175
Disposals	(4)	(6,331)	(636)	(6,971)
Effect of movements in foreign exchange	(48)	45	(226)	(229)
Balance at 31 December 2019	3,674	36,852	764	41,290
Net book value as at 31 December 2019	3,297	25,081	491	28,869
Net book value as at 31 December 2018	3,479	26,799	342	30,620

Leased land and buildings

At 31 December 2019 the net carrying amount of leased buildings was \$2,444,000 (2018: \$2,570,000) relating to the finance lease held in respect of the manufacturing facility in Portland Oregon.

Notes *(continued)*

10 Intangible assets

	Goodwill	Intellectual property	Total
	\$000	\$000	\$000
Cost			
Balance at 1 January 2018	73,325	3,654	76,979
Additions	-	129	129
Effect of movements in foreign exchange	-	-	-
Balance at 31 December 2019	73,325	3,783	77,108
Amortisation and impairment			
Balance at 1 January 2018	59,681	1,790	61,471
Amortisation in the year	1,603	331	1,934
Effect of movements in foreign exchange	-	(4)	(4)
Balance at 31 December 2019	61,284	2,117	63,401
Net book value as at 31 December 2019	12,041	1,666	13,707
Net book value as at 31 December 2018	13,644	1,864	15,508

Notes (continued)

10 Intangible assets (continued)

Amortisation and impairment charge

An amortisation charge of \$1,934,000 (2018: \$2,279,000) has been recognised in the 'Administrative expenses' line of the profit and loss account. There have been no impairment charges or impairment reversals in the period (2018: \$Nil).

Other disclosures

Intangible assets with a fair value of \$2,600,000 were acquired from Crunchies Natural Food Company LLC on 24 October 2014. Goodwill of \$855,000 was recognised in relation to the high growth potential of the business based on its established brand, customer relationships and the expected synergies between the acquired business and the operations of Chaucer Food Group.

Goodwill arose on the acquisition of the Pilgrim Foods Group in 2004. The goodwill balance is denominated in US Dollars and is allocated to cash generating units or groups of cash generating units as follows.

	Year ended 31 December 2019 \$000	Year ended 31 December 2018 \$000
Pilgrim Food Group – allocated to Freeze Dried Products	8,555	9,725
Pilgrim Food Group – allocated to Bread Based Products	2,852	3,242
Crunchies Food Company – purchase of trade and assets	634	677
	<hr/>	<hr/>
	12,041	13,644
	<hr/>	<hr/>

Notes (continued)

11 Investments in subsidiaries

Company

	\$'000
Shares in subsidiary undertakings at 31 December 2018	<u>74,848</u>
Additional share capital subscribed	-
Shares in subsidiary undertakings at 31 December 2019	<u>74,848</u>

The company has the following investments in subsidiaries:

Subsidiaries	Country of incorporation	Registered No.	Registered address	Year-end	Class of Shares held	Ownership
Broomco (3555) Ltd	UK	05234799	Unit 26, Brighton Street Ind Est, Freightliner Road, Hull, HU3 4EN	31 Dec	Ordinary	100%
Pilgrim Food Holdings Ltd*	UK	04171960	Unit 26, Brighton Street Ind Est, Freightliner Road, Hull, HU3 4EN	31 Dec	Ordinary	100%
Chaucer Foods Limited*	UK	03168607	Unit 26, Brighton Street Ind Est, Freightliner Road, Hull, HU3 4EN	31 Dec	Ordinary	100%
Chaucer Foods UK Ltd*	UK	01620320	Unit 26, Brighton Street Ind Est, Freightliner Road, Hull, HU3 4EN	31 Dec	Ordinary	100%
Chaucer Foods Inc*	USA	75-3064374	2238 Yew Street Forest Grove, Oregon 97116	31 Dec	Ordinary	100%
Chaucer QALICB Inc*	USA	975155-98	2238 Yew Street Forest Grove, Oregon 97116	31 Dec	Ordinary	100%
Chaucer Leverage Lender Inc*	USA	974997-99	2238 Yew Street Forest Grove, Oregon 97116	31 Dec	Ordinary	100%
Chaucer Foods SpA*	Chile	96.092.168-8	Av. Condell 376, Santiago, Chile	31 Dec	Ordinary	100%
Chaucer Foods SAS*	France	320050768	110 rue de la Perrière 49260 saint Cyr en Bourg	31 Dec	Ordinary	100%
Chaucer Foods Hong Kong Ltd*	Hong Kong	749470	4/F, Soho 77, 77 Bonham strand, Sheung Wan	31 Dec	Ordinary	100%
Chaucer Foods (Qingdao) Company Ltd*	China	913702007504203545	No.50 (A), Tokyo Road, Free Trade Port Zone, Qingdao	31 Dec	Ordinary	100%
Qingdao Chauanda Trade Co Ltd*	China	9137021232149112XG	Room 804, East of Floor 8, No. 182-8 Haier Road, Laoshan District, Qingdao	31 Dec	Ordinary	100%
Crunchies Natural Food Company LLC*	USA	5619874	23586 Calabasas Rd. Ste 202, Calabasas, CA 91302-1322	31 Dec	Ordinary	100%

*indicates indirectly held

Notes *(continued)*

12 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	At 31 December 2019 \$000	At 31 December 2018 \$000
Assets		
Property, plant and equipment	(124)	(42)
Provisions	429	423
	<hr/>	<hr/>
Deferred tax assets	305	381
	<hr/>	<hr/>

Deferred tax assets have been calculated using a deferred tax rate of 17% (31 December 2018: 17%).

Movement in deferred tax during the year

	At 1 January 2019 \$000	Recognised in income \$000	At 31 December 2019 \$000
Property, plant and equipment	(42)	(82)	(124)
Short term timing differences	423	6	429
	<hr/>	<hr/>	<hr/>
	381	(76)	305
	<hr/>	<hr/>	<hr/>

Movement in deferred tax during the year

	At 1 January 2018 \$000	Recognised in income \$000	At 31 December 2018 \$000
Property, plant and equipment	(88)	46	(42)
Short term timing differences	583	(160)	423
	<hr/>	<hr/>	<hr/>
	495	(114)	381
	<hr/>	<hr/>	<hr/>

Notes *(continued)*

13 Stocks

	At 31 December 2019 \$000	At 31 December 2018 \$000
Raw materials and consumables	8,999	13,613
Finished goods and work in progress	18,487	19,927
	<u>27,486</u>	<u>33,540</u>

Raw materials, consumables and changes in finished goods recognised as cost of sales in the period amounted to \$86,184,000 (year ended 31 December 2018: \$86,184,000). The write-down of inventories to net realisable value amounted to \$356,000 (31 December 2018: \$942,000).

14 Debtors

<i>Company</i>	At 31 December 2019 \$000	At 31 December 2018 \$000
Current		
Amounts due from group undertakings	92,673	63,151
Other debtors	13	4
	<u>92,686</u>	<u>63,155</u>

Group

	At 31 December 2019 \$000	At 31 December 2018 \$000
Due within one year		
Trade debtors	11,200	15,123
Other debtors	427	3,830
Prepayments & accrued income	1,890	-
Corporation tax debtor	1,244	25
Deferred tax assets	390	457
	<u>15,151</u>	<u>19,435</u>
Due after one year		
Loan notes	3,599	3,599
	<u>18,750</u>	<u>23,034</u>

Notes *(continued)*

15 Cash and cash equivalents

Group

	At 31 December 2019 \$000	At 31 December 2018 \$000
Cash and cash equivalents	13,902	2,710
Bank overdraft	(3,716)	(310)
	<hr/>	<hr/>
Cash and cash equivalents per cash flow statements	10,186	2,400
	<hr/>	<hr/>

16 Interest-bearing loans and borrowings

This note contains information about the group (unless otherwise noted) interest bearing loans and borrowings which are carried at amortised cost.

	At 31 December 2019 \$000	At 31 December 2018 \$000
Total liabilities		
Loan from parent company – group and company	45,146	48,764
Loan notes	6,000	6,000
Other loans	-	2
	<hr/>	<hr/>
	51,146	54,766
	<hr/>	<hr/>
Finance lease liabilities	3,055	3,086
	<hr/>	<hr/>
	54,201	57,852
	<hr/>	<hr/>

Notes (continued)

16 Interest-bearing loans and borrowings (continued)

Since December 2016 the group has been funded largely by loans from its ultimate parent, Nagatanien Holdings Co. Ltd.

The first of these, for \$54,182,000, has a maturity date of December 2028. Capital is to be repaid at a rate of \$5,418,000 annually on 9 December to the maturity date. At 31 December 2019, \$48,764,000 is outstanding. Interest is payable annually in arrears at a rate of 2.54511% per annum.

A further loan of \$5,000,000, has a maturity date of March 2020. Interest is payable at 3.3685% per annum. Capital and accrued interest are payable on the maturity date.

A further loan of \$5,500,000, has a maturity date of June 2020. Interest is payable at 2.68463% per annum. Capital and accrued interest are payable on the maturity date.

A further loan of \$6,500,000, has a maturity date of July 2020. Interest is payable at 2.69213% per annum. Capital and accrued interest are payable on the maturity date.

A further loan of \$3,418,000, has a maturity date of December 2020. Interest is payable at 2.42263% per annum. Capital and accrued interest are payable on the maturity date.

A further loan of \$2,000,000, has a maturity date of December 2029. Capital is to be repaid at a rate of \$200,000 annually to the maturity date. At 31 December 2019, \$2,000,000 is outstanding. Interest is payable annually in arrears at a rate of 2.86388% per annum.

The loan notes, which are secured by a guarantee made by the group, are denominated in US Dollars and are repayable in December 2043 (there is an option to repay these loans in December 2020). Interest is charged at 2.775% per annum. Under the United States New Markets Tax Credits (NMTC) program, the group received \$2,401,000 in new funds to support the construction of a new manufacturing facility in Oregon. These funds were made available through a series of loans and capital contributions made through group subsidiaries and unrelated financing entities established for this purpose.

At 31 December 2019 and 31 December 2018 Chaucer Leverage Lender Inc had an outstanding loan receivable of \$3,599,000 (the "Leverage Loan"), from the NMTC leveraged structure earning interest at a rate of 2.5% per year. All the principal is due to be repaid on 31 December 2043, the maturity date.

This borrower in the leverage structure, a limited liability company, the sole member of which is Wells Fargo Community Investment Holdings, LLC ("WFCIH"), uses the funds from the leverage loan, together with funds from an equity investment by WFCIH to invest in community development entities, which then use the funds to make loans to Chaucer QALICB Inc., which in turn uses these funds for payment of plant and equipment costs. As of 31 December 2019 and 31 December 2018, Chaucer QALICB Inc had outstanding loans payable of \$6,000,000 accruing interest at a rate of 3.5% per annum. Interest is payable quarterly. Principal on the outstanding loans payable is due on 31 December 2043, the maturity date of the loans.

In 2020, WFCIH, the bank that owns the investment structure, may, but is not required to, put its interest in the borrower of the Leverage Loan to the group for a put price of \$1,000, plus any amounts that may then be owing under certain indemnity or guaranty agreements. If the bank does not exercise its put right, the group may call the bank's interest in the borrower of the Leverage Loan for a call price equal to the then fair value of the interest. Exercise of the put or the call would provide Chaucer Foods Inc with ownership of the Borrower of the leverage Loan, and through it, ownership of a 99.99% interest in the community development entities that made the loans to Chaucer QALICB, Inc. This would provide Chaucer Foods Inc. with the ability to forgive the loan receivable from the Borrower of the Leverage Loan, as well as the loans payable by Chaucer QALICB, Inc. to the to the community development entities. Chaucer Foods Inc may also direct the community development entities to assign the Chaucer QALICB Inc loans to Chaucer Foods Inc to extinguish the loan receivable from the borrower of the Leverage loan. The principal and remaining accrued interest on the loan receivable and loans payable under the NMTC program, therefore, may be extinguished through these transactions prior to the loans' maturity dates. The Group has determined that the fair values of the put and call rights were nominal at 31 December 2019 and 31 December 2018 due to the fact that there is no guarantee that, nor obligation on any party to, exercise either the put or the call, and consequently significant uncertainty, that the options will be exercised and any benefit be obtained by the group.

Notes *(continued)*

16 Interest-bearing loans and borrowings *(continued)*

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments	Interest	Principal
	At	At	At
	31 December	31 December	31 December
	2019	2019	2019
	\$000	\$000	\$000
Less than one year	380	359	21
Between one and five years	1,958	1,732	226
More than five years	5,635	2,827	2,808
	<u>7,973</u>	<u>4,918</u>	<u>3,055</u>

The finance lease liability relates to the lease of a production facility in USA used by the Freeze Dried business. The lease commenced in May 2014 and runs for an initial term of 25 years with an implicit interest rate of 11.5%. At the end of this initial term, there is an option to renew the lease for two additional five year terms with the rental charge being the greater of 95% of an independently calculated fair rental value, or the prior year rental figure plus CPI.

An initial deposit of \$60,000 was paid which rises annually with CPI over the term (with a 4% cap and a 1% floor).

A rental charge of \$480,000 per annum is payable which increases annually in line with CPI (with a 4% cap and a 1% floor).

The lease contains both land and buildings which have been separated out into their respective parts based upon the relative fair value of the leasehold interest. The buildings element has been accounted for as a finance lease with the land element being accounted for as an operating lease in line with FRS102.20.15.

The group has an obligation to fully restore the factory to its present condition at the end of the lease term except for the roof which remains the landlord's main obligation. In addition the landlord has agreed to fund certain leasehold improvements.

Notes *(continued)*

17 Creditors

Company

	At 31 December 2019 \$000	At 31 December 2018 \$000
Due within one year		
Bank overdraft	2,812	-
Other creditors	3	26
Accruals and deferred income	924	435
Amounts due to group undertakings	30,122	-
Loan from parent company	26,036	25,418
	<hr/>	<hr/>
	59,897	25,879
	<hr/> <hr/>	<hr/> <hr/>

Group

	At 31 December 2019 \$000	At 31 December 2018 \$000
Due within one year		
Trade creditors	15,206	19,645
Other creditors	409	296
Accruals and deferred income	4,004	5,587
Financial instruments	249	889
Other taxation and social security	2,372	-
Corporation tax	1,255	860
Deferred tax liabilities	85	75
Loan from parent company	26,036	25,418
	<hr/>	<hr/>
	49,616	52,770
	<hr/> <hr/>	<hr/> <hr/>

Notes *(continued)*

18 Provisions

	2019 \$000	2019 \$000	2019 \$000	2018 \$000
	Pension	Dilapidations	Total	Pension
Balance at 1 January	683	-	683	905
Reclassified from creditors	-	533	533	-
Charged/(credited) to the profit and loss account	50	101	151	(118)
Provisions used during the year	-	-	-	(64)
Effect of foreign exchange movements	(14)	(2)	(16)	(40)
Balance at 31 December	719	632	1,351	683

The retirement provision relates to contractual entitlements held by employees of Chaucer Foods SAS in France. These entitlements crystallise on the retirement of individual employees.

	31 December 2019 \$000	31 December 2018 \$000
Current	92	10
Non-current	1,259	673
	1,351	683

Notes (continued)

19 Financial instruments

Financial risk management

(a) Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due.

The group's policy is to ensure that it has sufficient cash resources to cover its future funding requirements. Short term flexibility is available through the existing loan and the netting off of surplus funds. The carrying amounts are the amounts due if settled at the period end date. The contractual undiscounted cash flows include estimated interest payments over the life of these facilities.

	Carrying amount	Total	Contractual cash flows			
	Year ended 31 December 2019	Year ended 31 December 2019	Within 1 year	1-2 years	2-5 years	Over 5 years
	\$000	\$000	\$000	\$000	\$000	\$000
Non derivative financial liabilities						
Loan from parent company	71,182	78,242	27,612	6,779	19,510	24,341
Trade creditors	15,206	15,206	15,206			
Loan notes	6,000	9,994	166	166	499	9,163
Other loans	-	-	-	-	-	-
Overdraft	3,716	3,716	3,716			
	<u>96,104</u>	<u>107,158</u>	<u>46,700</u>	<u>6,945</u>	<u>20,009</u>	<u>33,504</u>
Derivative financial assets/liabilities						
Forward exchange contracts used for hedging						
Outflow	-	-	-	-	-	-
Inflow	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Notes *(continued)*

19 Financial instruments *(continued)*

	Carrying amount	Total	Contractual cash flows			
	Year ended 31 December 2018 \$000	Year ended 31 December 2018 \$000	Within 1 year	1-2 years	2-5 years	Over 5 years
			\$000	\$000	\$000	\$000
Non derivative financial liabilities						
Loan from parent company	74,182	82,428	27,458	6,659	19,151	29,160
Trade creditors	19,646	19,646	19,646	-	-	-
Loan notes	6,000	10,160	166	166	499	9,329
Other loans	2	2	2			
	<u>99,830</u>	<u>112,236</u>	<u>47,272</u>	<u>6,825</u>	<u>19,650</u>	<u>38,489</u>
Derivative financial assets/liabilities						
Forward exchange contracts used for hedging						
Outflow	-	-	-	-	-	-
Inflow	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

b) Market Risk

Interest rate risk

The group's borrowings are primarily at fixed interest rates, therefore no hedging of interest risk has been carried out.

Profile

At the balance sheet date the interest rate profile of the group's interest-bearing financial instruments was:

	At 31 December 2019 \$000	At 31 December 2018 \$000
Variable rate instruments		
Cash	13,912	2,710
Bank overdraft	(3,716)	(310)
Other loans	-	(2)
	<u>10,196</u>	<u>2,398</u>
Fixed rate instruments		
Loan from parent company	(71,182)	(74,182)
Loan notes payable	(6,000)	(6,000)
Loan note receivable	3,599	3,599
Finance lease liabilities	(3,055)	(3,086)
	<u>(76,638)</u>	<u>(79,669)</u>
Total net financial liabilities	<u>(66,442)</u>	<u>(77,271)</u>

Notes (continued)

19 Financial instruments (continued)

c) Commodity and energy prices

The group maintains a highly expert buying team to manage its materials input costs as tightly as possible. The only true commodities relevant to the group are flour and palm oil which are used in the Bread CGU. Annual purchases of these commodities are in the order of \$4 million per annum compared with total group materials cost in the order of \$60 million. The group uses a combination of spot and forward purchases of flour and palm oil to manage the future uncertainty of these commodity prices.

Whilst not an internationally traded commodity, fruit is a significant material cost to the group which represents around 80% of the material purchases of the Freeze Dried CGU. The buying team aim to cover around 30% to 50% of the group's annual fruit purchase requirements by means of contracted growing programs. The remaining requirement is covered by a combination of spot and forward purchases.

The Freeze Dried CGU is a large user of electricity and gas. The group therefore fixes prices forward for the purchase of these utilities where possible. Currently, electricity and gas purchases in France are subject to two year contracts which define volumes and prices (with seasonal variations).

d) Foreign Exchange Risk

The Bread CGU is predominately a UK business with revenues and costs in sterling (including the purchase of flour and Palm Oil which are also contracted in sterling).

In excess of 50% of the revenues of the Freeze Dried business are denominated in dollars with the remainder mainly in Euros. The group currently manufactures Freeze Dried products in France, China and The US and purchases raw materials in Renminbi, Dollars and Euros. Generally, therefore, the group is long on dollars and short on Renminbi, Euros and Sterling (to cover UK based Freeze Dried and central costs). The consequence of this is that the group is exposed to the movement in foreign currency rates of Renminbi, Euros and Sterling against the dollar and therefore uses forward foreign exchange contracts and options to manage these exposures.

The majority of the group's production costs are denominated in US Dollars. The group endeavours to obtain as much of its income as possible in US Dollars. The group's policy is to manage foreign currency cash receipts and payments expected from transactions over the following twelve months entering into forward contracts or options to fulfil any shortfall. As explained in note 1.8, the group does not apply hedge accounting.

Foreign exchange forward contracts in place at 31 December 2019 are summarised in the table below.

	Sell currency	Buy currency	Currency amount	Principal amount	Average rate	Maturity
At 31 December 2019						
Forward contract	USD	CNY	CNY 30,000,000	\$4,512,000	6.65	March to December 2020
Forward contract	USD	GBP	GBP 2,415,000	\$3,248,000	0.74	March to December 2020
	<u> </u>	<u> </u>		<u> </u>	<u> </u>	<u> </u>

Notes *(continued)*

20 Capital and reserves

	At 31 December 2019 Number	At 31 December 2018 Number
Share capital		
Ordinary shares of £0.000000001 each (2018: £0. 000000001)	4,517,410,620	4,517,410,620
	<u>4,517,410,620</u>	<u>4,517,410,620</u>

	At 31 December 2019 \$000	At 31 December 2018 \$000
Share capital		
<i>Allotted, called up and fully paid:</i>		
Ordinary shares of £0.000000001 each (2018: £0. 000000001)	-	-
	<u>-</u>	<u>-</u>

Reserve	Description and purpose
<i>Share premium</i>	Amount subscribed for share capital in excess of nominal value.
<i>Profit and loss account</i>	Cumulative net gains and losses recognised in the consolidated income statement.
<i>Capital redemption reserve</i>	This reserve exists because the parent company purchased some of its own shares. At 31 December 2019, the number of shares held was 231,714 Ordinary B shares.

Notes (continued)

21 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	At 31 December 2019 \$000	At 31 December 2018 \$000
Less than one year	1,192	1,060
Between one and five years	1,584	1,598
More than five years	2,048	2,146
	<u>4,824</u>	<u>4,804</u>

Operating lease commitments include the land element of the Portland lease as outlined in note 16.

22 Commitments

Capital commitments

The group's contractual commitments to purchase tangible fixed assets at the year-end were \$120,000 (2018: \$519,000).

23 Related parties

At 31 December 2019, Shuei Shimizu, a director of the company, held the following other directorship: Nagatanien Holdings Co Ltd. a company registered in Japan.

At 31 December 2019, Peter Niklai, a director of the company, held the following other directorships: 1) companies registered in Chile – Aguas Nuevas S.A., Aguas Araucania S.A., Aguas del Altiplano S.A., Aguas Magallanes S.A. and EnerNuevas SpA.; 2) companies registered in United Kingdom – Seajacks International Limited, Seajacks 1 Limited, Seajacks 2 Limited, Seajacks 3 Limited, Seajacks 4 Limited, Seajacks 5 Limited, Atlantis Investarco Limited, Atlantis Equityco Limited, Atlantis Midco Limited, AGS MCKUK Holdings Limited, INCJ SJ Investments Limited, and INCJ Aqua Investment Limited; 3) a company registered in Portugal – AGS – Administração e Gestão de Sistemas de Salubridade, S.A.; and 4) companies registered in Japan – INCJ Water 1 Limited.

At 31st December 2019, Tatsuo Kogure, a director of the company, held the following other directorship: TANITA HEALTH LINK, INC. a company registered in Japan.

Transactions with key management personnel

The compensation of key management personnel is as follows:

	At 31 December 2019 \$000	At 31 December 2018 \$000
Key management emoluments	596	604
	<u>596</u>	<u>604</u>

Key management personnel includes 1 individual who served as statutory director during the year (2018: 1).

Other related party transactions

An exemption from disclosing related-party transactions with wholly owned group entities has been claimed under FRS102.33.1A.

Notes (continued)

24 Ultimate parent company and parent company of larger group

The company is a subsidiary undertaking of Nagatanien Holdings Co. Limited, a company incorporated in Japan. The ultimate controlling party is Nagatanien Co. Limited, a company incorporated in Japan.

The largest group in which the results of the company and its group are consolidated is that headed by Nagatanien Co. Limited, a company incorporated in Japan. No other group financial statements include the results of the Company. The consolidated financial statements of these groups are available to the public and may be obtained from 2-36-1, Nishi-Shimbashi, Minato-ku, Tokyo.

25 Subsequent events

The most significant emerging risk is the ongoing outbreak of the Coronavirus (COVID-19).

COVID-19 is a new and evolving crisis, which has been labelled a pandemic by many countries and institutions, including the World Health Organization. The global economic impact of COVID-19 is yet to be determined, but in a short period of time, has severely damaged the global economy as businesses cease operations and populations are ordered to stay home to slow the spread.

We are monitoring the situation carefully as it evolves to understand the potential impact on our people and our business. This has been a topic on daily management calls and monthly board meetings.

Key risks and their impact and mitigation are summarised below:

- **the global economic impact** – whilst global spending is down, consumer spending is up in the key segment of grocery sales
- **employee and product safety** – steps were taken to stop unnecessary travel, implement home working where possible and social distancing in manufacturing facilities, enabling continuity of production
- **supply chain and operations** – through careful planning, continuity of supply has not been affected
- **key customers and sales impact** – the business has seen a strong start to 2020, partly as a result of increased grocery sales, with more meals consumed in-house, and the result of consumer stock-piling. Whilst several customers are expected to delay new product launches, annual sales are expected to remain in line with budget.

Based on the current position and factors considered above, COVID-19 is not expected to prevent the company from continuing to trade as a going concern.

Notes (continued)

26 Accounting estimates and judgements

The preparation of consolidated financial statements in conformity with FRS102 requires management to make judgements, estimates and assumptions concerning the future, that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These judgements are based on historical experience and management's best knowledge at the time and the actual results may ultimately differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The estimates and assumptions that have significant risk of causing a material adjustment to the carrying value of assets and liabilities are discussed below.

Provisions

Information about provisions and contingencies, which are considered to have a risk of material adjustment in the next financial period due to the assumptions and estimations used, are disclosed in note 18. The provisions are based on historical experience and management's best knowledge at the time and are reviewed at each balance sheet date. The actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

Impairment of investments, goodwill and other intangibles

Determining whether investments, goodwill and other intangibles are impaired requires an estimation of the value in use of the cash-generating units to which goodwill and other intangible assets have been allocated. The value in use calculation requires estimation of future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The group estimates the recoverable amounts based on historical experience of margin, volumes and cost structure and expectations of future events. The group's weighted average cost of capital takes account of current market conditions as well as risks specific to the entity and this has been applied as a pre-tax discount factor to obtain a current value. The weighted average cost of capital is impacted by estimates of interest rates, equity returns and market specific risks.

Determination of useful lives, residual values and carrying values of property, plant and equipment

Depreciation is provided so as to write down the assets to their residual values over their estimated useful lives as set out in the accounting policies for property, plant and equipment. The selection of these residual values and estimated lives required the exercise of judgement.

The group is required to assess whether there is indication of impairment to the carrying value of assets. In making that assessment, judgements are made in estimating value in use. The managers consider that the individual carrying values of operating assets are supportable either by value in use or market values.

Carrying value of inventories

Management review the market value of and demand for its inventories on a periodic basis to ensure inventory is recorded in the financial statements at the lower of cost and net realisable value. Any provision for impairment is recorded against the carrying value of inventories. Management use their knowledge of market conditions to assess future demand for the group's products and achievable selling prices.

Assumptions relating to tax

The group recognises expected assets for tax based on an estimation of the likely taxes receivable, which requires significant judgement as to the ultimate tax determination of certain items. Where the actual asset arising from these items differs from these estimates, such differences will have an impact on income tax and deferred tax assets in the period when such determination is made.