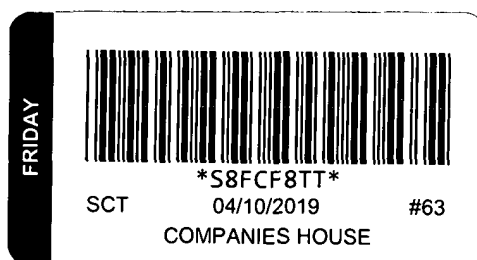


Company Number 05893846

THE FIRST MILK CHEESE COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019



THE FIRST MILK CHEESE COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

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DIRECTORS

Shelagh Hancock
Greg Jardine

COMPANY SECRETARY

Angus Waugh

REGISTERED OFFICE

The Lake District Creamery
Station Road
Aspatria
Wigton
Cumbria
CA7 2AR

INDEPENDENT AUDITOR

Deloitte LLP
Statutory Auditor
110 Queen Street
Glasgow
United Kingdom
G1 3BX

SOLICITORS

Dentons UK and Middle East LLP
1 George Square
Glasgow
G2 1AL

PRINCIPAL BANKERS

Lloyds TSB Commercial Finance
Boston House
The Little Green
Richmond
Surrey
TW9 1QE

DEBT PROVIDERS

Wells Fargo Capital Finance (UK) Limited
4th Floor
90 Longacre
London
WC2E 9RA

The directors of The First Milk Cheese Company Limited (the "Company") present their strategic report for the year ended 31 March 2019. The Company's registered number is 05893846.

THE BUSINESS AND PRINCIPAL ACTIVITIES

The Company is a subsidiary undertaking of First Milk Limited ("First Milk" or the "Group"), a member-owned co-operative of dairy farmers.

The principal activities of the Company are the manufacture and sale of cheese and other dairy products.

RESULTS

The financial statements on pages 11 to 27 detail the trading results of the Company for the year ended 31 March 2019 and the financial position as at that date.

The Company's turnover increased during the year ended 31 March 2019 by £5,637k to £195,601k. The result for the year on ordinary activities before taxation (excluding exceptional costs) was a profit of £2,156k (2018: £3,223k). After exceptional items of £2,028k (2018: £426k) the profit on ordinary activities before taxation was £128k (2018: £2,797k).

The exceptional costs in the year to 31 March 2019 comprise of £1,990k in relation to the impairment of assets related to creamery buildings and equipment which were written down to a more appropriate "in-use" value to reflect lower returns from our two smaller creameries, professional fees of £36k and £2k in relation to redundancy costs.

The 2018 exceptional costs comprise of a charge of £426k related to redundancies.

KEY FINANCIAL PERFORMANCE INDICATORS

The table below provides key financial performance indicators ("KPIs") relating to the Company's performance during the year and the comparative prior year.

Financial KPI	2019	2018
Operating profit before exceptional items	£3,407k	£4,193k
Profit on ordinary activities before taxation (excluding exceptional items)	£2,156k	£3,223k
Profit before tax and after exceptional items	£128k	£2,797k
Net assets employed	£24,123k	£23,995k
Net bank debt	£40,368k	£43,701k

Our operating profit of £3,407k was in line with our budget and expectations. The strategic objective of the Group is to maximise the return of value to members, primarily through milk price, whilst retaining sufficient profits to meet our business obligations and commitments.

The Group's balance sheet continues to strengthen, with net asset growth across the financial year to £24.1m. This was achieved through a combination of investment in our processing ahead of depreciation and the continued profitable and cash generative growth of the business.

PROSPECTS AND STRATEGIC ASPIRATION

The Group's key objective is to deliver above market total returns to the farmer members of First Milk.

The directors plan to deliver this objective includes the following elements:

- Improve milk price relative to competitors and grow the value of the business, whilst meeting commitments to lenders
- Positively develop customer relationships that continue to create value through growing our cheese and milk business

PROSPECTS AND STRATEGIC ASPIRATION (CONTINUED)

- Improve operational performance through cost reduction, optimising site utilisation and increasing productivity
- Improve systems, processes and reporting to speed the provision of timely, informative information
- Deliver value to Members that builds First Milk's Member proposition
- Enhance people's effectiveness throughout the business by building knowledge and understanding and developing skills and capability

BUSINESS REVIEW

During the last year we have continued to make progress in strengthening and growing the business and I am pleased to report a good financial performance in line with expectations for the year ended 31 March 2019.

The Company's Long Term Supply Agreement with Ornuu Foods UK Limited provides a solid base for the sale of cheese.

On 17 April 2018, the board of the company's parent, First Milk Limited, announced plans to offer the creameries on Arran and Campbeltown for sale. The company markets and sells the cheese manufactured at these creameries.

POST BALANCE SHEET EVENTS

There have been no significant events since the balance sheet date.

PRINCIPAL RISKS AND UNCERTAINTIES

Market conditions and commodity prices

The principal input cost for the company is milk purchased from its parent, First Milk Limited. The Board addresses the risk of changing market conditions and resultant commodity prices through constant review of the milk price paid to members of First Milk Limited.

Competitive Risk

The Company sells the majority of its products in the United Kingdom to Ornuu Foods UK Limited. For the remainder of its UK sales as well as export sales, it faces competition from other companies in the United Kingdom and abroad. It addresses these risks by ensuring that sales staff are fully aware of relevant markets, offering products at market competitive prices, providing excellent service levels and developing long-term strategic relationships with customers.

Regulatory Risk

The Company is required to comply with various regulatory regimes in areas such as competition law, health and safety and environmental legislation. This is achieved through the adoption of appropriate policies and structures, risk assessments, monitoring and reviewing performance, recruitment and training of suitably qualified staff and support from external consultants, including legal advisers, where appropriate. Regulatory risks are also considered on a regular basis as part of the Group's risk management process.

Input Cost Risk

The Company faces the prospect of paying higher prices for vital commodities, including electricity, gas, plastics and cardboard. This risk is mitigated in relation to many input costs by maintaining awareness of markets and by forward buying where this is appropriate. In addition, the use of such commodities is kept to a minimum and reduced where possible. The business addresses electricity costs by buying electricity in the wholesale market, with expert assistance from energy consultants.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to a number of financial risks including price, credit, interest rate, liquidity and fraud risk. The use of financial derivatives is governed by the Group's risk management framework as approved by the Board of Directors. The Company does not use derivative financial instruments for speculative purposes.

Price Risk

The risk of the Company receiving low prices compared to market levels is mitigated, by the use of up-to-date market intelligence.

Credit Risk

The Company's principal financial assets are trade and other receivables.

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. A provision is made where there is an identified triggering event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

Credit risk attributable to trade receivables is mitigated through the use of credit insurance.

Interest Rate Risk

The Company's activities expose it to the financial risks of changes in interest rates. The parent company, First Milk Limited, uses interest rate swap contracts, where appropriate, to hedge the exposures for the Group.

Liquidity Risk

In order to maintain liquidity to ensure that sufficient funds are available for on-going operations and future developments, the Company aims to use a mixture of long-term and short-term debt finance. Management monitors rolling forecasts of the Company's liquidity reserve and cash and cash equivalents on the basis of expected cash flows. Further information with regard to the management of current liquidity risk is contained in note 1 to the financial statements on pages 14 and 15.

Fraud risk

First Milk recognises the risk of fraud. This risk is mitigated through reviews of controls within systems conducted, where appropriate, with the assistance of internal auditors, and by the operation of an Anti-bribery and Corruption Policy.

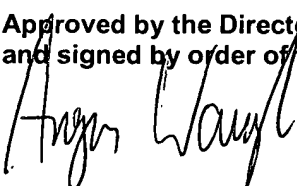
Cyber risk and risk of data breach

The Company recognises the risks to IT systems and data from cyber-attacks. These risks are mitigated by the use of up to date anti-virus software, regular back-up of data and use of cloud based storage. The board has addressed the risk of personal data breaches by staff training and the adoption of policies on privacy and acceptable use of IT equipment.

Brexit risk

The decision by the United Kingdom to leave the European Union has created uncertainties in relation to labour, energy costs, input supplies, export regulations and commercial activities. Some of these risks affect the Company directly while other effects will be indirect, for example where they affect the commercial activities of partner businesses. The board addresses these uncertainties by monitoring developments and government guidance and taking mitigating actions where deemed appropriate.

Approved by the Directors
and signed by order of the Board



Angus Waugh
Company Secretary
27 June 2019

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2019.

FUTURE DEVELOPMENTS

The future developments of the Company are contained in the strategic report.

DIVIDENDS

No dividends were paid during the year (2018: £nil) and no recommendation is made in respect of dividends to be paid (2018: £nil).

FINANCIAL RISK MANAGEMENT

The financial risk management of the Company is contained in the strategic report.

COMPANY'S POLICY FOR PAYMENT OF CREDITORS

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with.

DONATIONS

The Company made no political or charitable donations during the year (2018: £nil).

EMPLOYEES

The recruitment, development, retention and maintenance of a highly skilled workforce is key to the future of the business. It is the policy of the Board of Directors to enlist the commitment of all employees in attaining the Company's objectives. Implementation of this policy is by encouraging employee involvement through effective communications, which includes team briefings, newsletters and any other appropriate means of consultation. The number of employees employed by the Company and their related costs are disclosed in note 6 of these financial statements.

It is the Board's policy to ensure that continuous employment is offered to employees who become temporarily or permanently disabled where it is practicable to do so within the scope of the business activities of the Company. Disabled persons are employed when they appear to be suited to a particular vacancy and every effort is made to ensure that they are given full and fair consideration when such vacancies arise.

DIRECTORS

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

Shelagh Hancock
Greg Jardine

DIRECTORS INDEMNITIES

The company has not made qualifying third party indemnity provisions for the benefit of its directors.

GOING CONCERN

The financial statements have been prepared on a going concern basis. The Company is dependent on its parent company, First Milk Limited ("Group") for financial support and funding. The information presented below is in respect of the going concern of the group and is included here as the going concern of the Company is dependent upon the Group's own ability to continue as a going concern.

The directors of the company have received a letter of formal support from First Milk Limited stating that they will continue to provide financial support to the Company to enable it to meet its liabilities as they fall due until at least one year from date of approval of the financial statements.

GOING CONCERN (CONTINUED)

Current Trading and Borrowings

The year to 31 March 2019 saw a third profitable year at both the Operating Profit level and Profit level, with profits delivered in line with plans. The Group's operating profit before exceptional items was £7,202k (2019: £6,627k). Net profit for the year of £2,665k, compared to a profit of £3,156k in 2018. In the first months of the year to 31 March 2020 trading is tracking in line with the projections set at the beginning of the year.

The Group's net bank debt reduced from £44,911k to £41,136k during the year, mainly as a result of positive operating cashflow. Overall borrowings have remained broadly at the same level in the first months of the year to 31 March 2020.

Funding

The business is financed through a combination of members' capital contributions and debt facilities. Members' capital contributions are collected through the retention of 0.5 pence per litre from each member's milk payment until they reach their capital target. In the financial year members' capital contributions totalled £1.4m.

The business is in the third year of a 4-year facilities agreement with a debt provider, Wells Fargo. These facilities are secured by fixed securities over certain Group assets, a floating charge over Scottish Milk Products Limited and a debenture over First Milk Limited and The First Milk Cheese Company Limited. There are financial covenants applicable to these facilities, with which we have been in compliance since the inception of the facilities which are repayable on 31 January 2021. The maximum facility available to the Group is £60 million, with the amount available at any time depending on the value of stock and debtors and is based on a percentage draw-down specified in the facility agreement. The amount available from the facility at 27 June 2019 was £59,937k (31 March 2019: £59,321k). In addition to the facility there is a term loan based on fixed asset values which at 27 June 2019 was £3,200k (31 March 2019: £3,500k). The Board's forecasts show that there is adequate headroom within this level of debt facilities over the next year.

Forecasts

The Board has undertaken a thorough review of the Group's forecasts and associated risks. These forecasts extend for a period beyond one year from the date of approval of these financial statements. The forecasts make key assumptions based on information available to the directors at the time of the approval of these financial statements that:

- the price paid for milk supplies and other costs will fluctuate with returns available to the business to ensure the projected profitability is achieved;
- there is no material diminution in the bank facilities available to the Group as a result of the market value of stock falling, given this is a factor in establishing the amount of the borrowing facilities available to the Group, or other adverse working capital movements; and
- key customer and supplier contracts continue as per their existing commercial arrangements over the contractually agreed periods.

The directors have based their conclusions regarding going concern upon these forecasts.

Conclusion on Going Concern

At the date of these financial statements, the directors consider that, based upon the financial projections and the existence of debt facilities which will be available until 31 January 2021, the Group and Company will have sufficient funding to continue as a going concern for at least the next twelve months.

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), 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 Company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed subject to any departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The directors confirm that they have complied with these requirements and having a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, have adopted the going concern basis for preparing the financial statements.

DISCLOSURE OF INFORMATION TO AUDITOR

In the case of each of the persons who are directors of the Company at the date when this report was approved:

- So far as each of the directors are aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- Each of the directors have taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

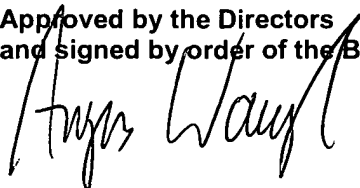
This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

INDEPENDENT AUDITOR

The Audit Committee of the company's parent, First Milk Limited, makes recommendations on the appointment of the external auditors for the Group, the fees payable for work carried out by the audit firm and reports to the Board in respect of non-audit services carried out by the auditors. In considering all of the above, the Committee has due regard to the cost effectiveness, independence and objectivity of the audit function.

A resolution to reappoint Deloitte LLP will be proposed at the forthcoming Annual General Meeting. Their report on the financial statements can be found on pages 9 and 10.

**Approved by the Directors
and signed by order of the Board**

A handwritten signature in black ink, appearing to read 'Angus Waugh', written over the printed name and title.

**Angus Waugh
Company Secretary
27 June 2019**

Independent auditor's report to the members of First Milk Cheese Company Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of First Milk Cheese Company (the 'society'):

- give a true and fair view of the state of the society's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (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 are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

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 society'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 society or to cease operations, or has 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

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 the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

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.



Colin Gibson CA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Glasgow

28 June 2019

	Note	2019 £'000	2018 £'000
Turnover	2	195,601	189,964
Cost of sales		<u>(191,494)</u>	<u>(184,907)</u>
Gross profit		<u>4,107</u>	<u>5,057</u>
Administrative expenses:			
Recurring		(700)	(864)
Exceptional	3	<u>(2,028)</u>	<u>(426)</u>
		<u>(2,728)</u>	<u>(1,290)</u>
Operating profit	4	1,379	3,767
Finance income	7	3	-
Finance costs	8	<u>(1,254)</u>	<u>(970)</u>
Profit on ordinary activities before taxation		128	2,797
Tax on profit ordinary activities	9	<u>-</u>	<u>-</u>
Profit for the financial year		<u>128</u>	<u>2,797</u>

There were no recognised gains or losses other than those shown in the profit and loss account for the current year and prior year. Accordingly no statement of other comprehensive income is provided.

All results relate to continuing operations.

	Note	2019 £'000	2018 £'000
Fixed assets			
Property, plant and equipment	10	29,107	30,927
Current assets			
Inventories	11	50,460	50,672
Trade and other receivables	12	18,926	17,139
Cash and cash equivalents		197	109
		69,582	67,920
Trade and Other Payables: amounts falling due within one year	13	(35,272)	(32,621)
Net current assets		34,310	35,299
Total assets less current liabilities		63,417	66,226
Trade and other payables: amounts falling due after more than one year	14	(39,293)	(42,231)
Net assets		24,123	23,995
Capital and reserves			
Called up share capital	18	28,000	28,000
Capital Contribution Reserve		37,000	37,000
Profit and loss account		(40,877)	(41,005)
Total shareholders' funds		24,123	23,995

The accounting policies and notes on pages 14 to 27 are an integral part of these financial statements.

The financial statements on pages 11 to 27 were approved by the Board of Directors on 27 June 2019 and signed on its behalf by:



Greg Jardine
Director

THE FIRST MILK CHEESE COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2019

Page 13

	Called up share capital £'000s	Capital Contribution Reserve £'000s	Profit and loss account £'000s	Total £'000s
Balance at 1 April 2017	28,000	37,000	(43,802)	21,198
Profit from total comprehensive income for the year	-	-	2,797	2,797
Contribution in the year	-	-	-	-
Balance at 31 March 2018	28,000	37,000	(41,005)	23,995
Profit from total comprehensive income for the year	-	-	128	128
Balance at 31 March 2019	28,000	37,000	(40,877)	24,123

During the year to 31 March 2017, the Parent Company, First Milk Limited, waived £37m of outstanding debt from trading activities, resulting in a Capital Contribution.

1. ACCOUNTING POLICIES

General information

The Company is a subsidiary undertaking of First Milk Limited ("First Milk" or the "Group"), a member-owned co-operative of dairy farmers and private company in the United Kingdom, registered in Scotland. The registered office is Cirrus House, Glasgow Airport Business Park, Marchburn Drive, Paisley PA3 2SJ.

The principal activities of the Company are the manufacture and sale of cheese and other dairy products.

Statement of compliance

The Company's financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and in accordance with the Companies Act 2006.

Summary of significant accounting policies

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

Basis of preparation

The financial statements have been prepared on the going concern basis, under the historical cost convention, modified to include the revaluation of certain fixed assets, and in accordance with applicable United Kingdom Accounting Standards. The financial statements have been prepared in accordance with the Companies Act 2006 and FRS 102.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in 'Critical accounting judgements and key source of estimation uncertainty' section of this note.

Going Concern

The financial statements have been prepared on a going concern basis. The Company is dependent on its parent company, First Milk Limited ("Group") for financial support and funding. The information presented below is in respect of the going concern of the group and is included here as the going concern of the Company is dependent upon the Group's own ability to continue as a going concern.

The directors of the company have received a letter of formal support from First Milk Limited stating that they will continue to provide financial support to the Company to enable it to meet its liabilities as they fall due until at least one year from date of approval of the financial statements

Current Trading and Borrowings

The year to 31 March 2019 saw a third profitable year at both the Operating Profit level and Profit level, with profits delivered in line with plans. The Group's operating profit before exceptional items was £7,202k (2019: £6,627k). Net profit for the year of £2,665k, compared to a profit of £3,156k in 2018. In the first months of the year to 31 March 2020 trading is tracking in line with the projections set at the beginning of the year.

The Group's net bank debt reduced from £44,911k to £41,136k during the year, mainly as a result of positive operating cashflow. Overall borrowings have remained broadly at the same level in the first months of the year to 31 March 2020.

Funding

The business is financed through a combination of members' capital contributions and debt facilities. Members' capital contributions are collected through the retention of 0.5 pence per litre from each member's milk payment until they reach their capital target. In the financial year members' capital contributions totalled £1.4m.

1. ACCOUNTING POLICIES (CONTINUED)

Funding (continued)

The business is in the third year of a 4-year facilities agreement with a debt provider, Wells Fargo. These facilities are secured by fixed securities over certain Group assets, a floating charge over Scottish Milk Products Limited and a debenture over First Milk Limited and The First Milk Cheese Company Limited. There are financial covenants applicable to these facilities, with which we have been in compliance since the inception of the facilities which are repayable on 31 January 2021. The maximum facility available to the Group is £60 million, with the amount available at any time depending on the value of stock and debtors and is based on a percentage draw-down specified in the facility agreement. The amount available from the facility at 27 June 2019 was £59,937k (31 March 2019: £59,321k). In addition to the facility there is a term loan based on fixed asset values which at 27 June 2019 was £3,200k (31 March 2019: £3,500k). The Board's forecasts show that there is adequate headroom within this level of debt facilities over the next year.

Forecasts

The Board has undertaken a thorough review of the Group's forecasts and associated risks. These forecasts extend for a period beyond one year from the date of approval of these financial statements. The forecasts make key assumptions based on information available to the directors at the time of the approval of these financial statements that:

- the price paid for milk supplies and other costs will fluctuate with returns available to the business to ensure the projected profitability is achieved;
- there is no material diminution in the bank facilities available to the Group as a result of the market value of stock falling, given this is a factor in establishing the amount of the borrowing facilities available to the Group, or other adverse working capital movements; and
- key customer and supplier contracts continue as per their existing commercial arrangements over the contractually agreed periods.

The directors have based their conclusions regarding going concern upon these forecasts.

Conclusion on Going Concern

At the date of these financial statements, the directors consider that, based upon the financial projections and the existence of debt facilities which will be available until 31 January 2021, the Group will have sufficient funding to continue as a going concern for at least the next twelve months

Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, if certain conditions have been complied with. A qualifying entity is defined as a member of a group that prepares publicly available financial statements, which give a true and fair view, in which that member is consolidated. First Milk Cheese Company Limited is a qualifying entity as its results are consolidated into the consolidated financial statements of First Milk Limited which are available from the Company Secretary, First Milk Limited, Cirrus House, Glasgow Airport Business Park, Marchburn Drive, Paisley, PA3 2SJ.

As a qualifying entity, the Company has taken advantage of the following exemptions:

- i) from the requirement to prepare a statement of cash flows as required by paragraph 3.17(d) of FRS 102;
- ii) from the requirement to present certain financial instrument disclosures, as required by sections 11 and 12 of FRS 102;
- iii) from the requirement to disclose the key management personnel compensation in total as required by paragraph 33.7 of FRS 102; and
- iv) from the requirement to provide certain related party transactions between group members who are wholly owned by a group member as required by paragraph 31.1A of FRS 102.

1. ACCOUNTING POLICIES (CONTINUED)

Foreign Currencies

i) Functional and presentation currency

The Company's financial statements are presented in pounds sterling and rounded to thousands.

ii) Transactions and balances

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

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

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance (expense)/income'. All other foreign exchange gains and losses are presented in the income statement within 'Other operating (losses)/gains'.

iii) Translations

The trading results of Company undertakings are translated into sterling at the average exchange rates for the year.

Revenue recognition

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties for goods or services supplied during the year, is recognised on dispatch of cheese and other dairy products. Turnover and operating results relate to the continuing operations of the Company and are all attributable to the principal business activity, being the marketing, manufacture and sale of cheese and other dairy products.

Interest Income

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Employee benefits

The Company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined contribution pension plans.

i) Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

ii) Defined contribution pension plans

iii) Defined benefit pension plans

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

1. ACCOUNTING POLICIES (CONTINUED)

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the income statement.

Current or deferred taxation assets and liabilities are not discounted.

i) Current tax

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

ii) Deferred tax

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

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

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

Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance expenditures are charged to the income statement during the financial year in which they are incurred.

Depreciation is calculated to write off the cost or valuation of property, plant and equipment by equal annual instalments over their estimated useful lives.

The useful lives assumed for buildings vary between 20 and 50 years and for plant, equipment and vehicles between 4 and 15 years. Land is not depreciated.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss and included in 'Other operating (losses)/gains'.

Leases

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

i) Operating leased assets

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

ii) Lease incentives

Incentives received to enter into an operating lease are credited to the income statement, to reduce the lease expense, on a straight-line basis over the period of the lease.

Government Grants

Government grants relating to property, plant and equipment are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. Other grants are credited to the profit and loss account as the related expenditure is incurred.

1. ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories of cheese and other inventories are valued at the lower of cost and estimated selling price less cost to sell. Where applicable, cost includes direct costs, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Provision is made for obsolete, slow moving or defective items where appropriate.

Cost is determined on the first-in, first-out (FIFO) method.

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

Cash and cash equivalents

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

Provisions

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation; and the amount of the obligation can be estimated reliably. If the effect is material, expected future cash flows are discounted using a pre-tax rate that reflects, where appropriate, the risks specific to the liability.

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

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

Financial Instruments

The Company has chosen to adopt sections 11 and 12 of FRS 102 in respect of financial instruments.

i) Financial assets

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

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

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

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

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

1. ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (continued)

ii) Financial Liabilities

Basic financial liabilities, including trade and other payables and loans from fellow Group companies are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

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

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

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

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

The Group does not currently apply hedge accounting for interest rate and foreign exchange derivatives.

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

iii) Offsetting

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

Critical accounting judgements and key source of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of the estimation means that actual outcomes could differ from those estimates. There were no critical judgements or key sources of estimation uncertainty made by the directors in applying the company's accounting policies in the current year.

2. TURNOVER

Turnover, which is stated net of value added tax, represents the invoiced amount for goods or services supplied during the year. Turnover and operating surplus relates to the continuing operations of the Company and are attributable to the principal business activity, being the manufacture and sale of cheese and other dairy products.

The majority of turnover relates to the sale of goods with £3.7m (2018: £3.6m) relating to services supplied during the year.

The majority of turnover is to the UK with £39.0m (2018: £36.4m) being to Continental Europe. Sales to the rest of the world were £0.01m (2018: £0.19m).

3. ADMINISTRATIVE EXPENSES

The exceptional administrative expenses in the year to 31 March 2019 comprise of £1,990k in relation to the impairment of assets related to creamery buildings and equipment which were written down to a value in use that reflects lower returns from our two smaller creameries, professional fees of £36k in relation to the potential sale of the Scottish Creameries and £2k in relation to payroll and redundancy costs.

The exceptional administrative expenses in the year to 31 March 2018 comprise of £426k in relation to redundancies.

4. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	2019	2018
	£'000	£'000
Depreciation of property, plant and equipment	3,575	3,742
Operating lease rentals		
- plant and equipment	92	89
- land and buildings	-	-
Auditor's remuneration		
- audit of the financial statements	70	67
- tax services	84	16
Government grants released	(83)	(182)
Loss on disposal of fixed assets	104	137

5. DIRECTORS' REMUNERATION

All directors receive remuneration for services to the First Milk Limited Group, of which The First Milk Cheese Company Limited is a member, but the proportion attributable to The First Milk Cheese Company Limited is not separately identifiable. Full disclosure is made in the financial statements of First Milk Limited.

6. STAFF COSTS

	2019	2018
	£'000	£'000
Wages and salaries	5,880	6,257
Social security costs	555	603
Other pension costs	291	314
	<u>6,726</u>	<u>7,174</u>

The average monthly number of persons (including executive directors) employed by the Company during the year was:

Employee numbers	Number	Number
Administration	2	28
Production	181	171
	<u>183</u>	<u>199</u>

7. FINANCE INCOME

	2019	2018
	£'000	£'000
Interest on short term deposits with banks	3	-
	<u>3</u>	<u>-</u>

8. FINANCE COSTS

	2019	2018
	£'000	£'000
Bank loans and overdraft	1,254	970
	<u>1,254</u>	<u>970</u>

9. TAX ON PROFIT/LOSS ON ORDINARY ACTIVITIES

	2019 £'000	2018 £'000
Current tax		
Current tax charge	-	-
Deferred tax (credit)/charge		
Origination and reversal of temporary differences	-	-
Adjustments to previous years	-	-
Effects of changes in tax rates	-	-
Total deferred tax	-	-
Tax on profit on ordinary activities	-	-

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 19% (2018: 19%). The actual tax charge for the current and previous year differs from the standard rate for the reasons set out in the following reconciliation:

	2019 £'000s	2018 £'000s
Profit on ordinary activities before taxation	128	2,797
Tax on profit on ordinary activities at standard rate of 19% (2018: 19%)	24	531
<i>Factors affecting the charge for the year:</i>		
Expenses not deductible	13	109
Income not taxable	-	(34)
Deferred tax not provided	(37)	(606)
Total tax charge	-	-

The main rate of corporation tax is to be reduced from 19% to 17% from 1 April 2020.

The rate used in these Financial Statements is 17%, since this is the expected rate that will apply when the deferred tax timing differences reverse.

10. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings	Plant, equipment and vehicles	Total
	£ '000	£ '000	£ '000
Cost:			
At 1 April 2018	5,803	54,806	60,609
Additions	-	4,098	4,098
Transfers	401	(401)	-
Disposals	-	(795)	(795)
At 31 March 2019	<u>6,204</u>	<u>57,708</u>	<u>63,912</u>
Accumulated depreciation:			
At 1 April 2018	1,380	28,302	29,682
Charge for the year	426	3,149	3,575
Transfers	-	-	-
Disposals	-	(442)	(442)
Impairment	-	1,990	1,990
At 31 March 2019	<u>1,806</u>	<u>32,999</u>	<u>34,805</u>
Net book value:			
At 31 March 2019	<u><u>4,398</u></u>	<u><u>24,709</u></u>	<u><u>29,107</u></u>
At 31 March 2018	<u><u>4,423</u></u>	<u><u>26,504</u></u>	<u><u>30,927</u></u>

11. INVENTORIES

	2019	2018
	£'000	£'000
Raw materials and consumables	4,013	3,172
Finished goods and goods for sale	<u>46,627</u>	<u>47,500</u>
	<u><u>50,640</u></u>	<u><u>50,672</u></u>

The amount of Inventories recognised as an expense during the year was £191,494k (2018: £184,907k).

12. TRADE AND OTHER RECEIVABLES

	<u>2019</u>	<u>2018</u>
	£'000	£'000
Trade receivables	18,158	16,678
Amounts owed by group undertakings	250	14
Value added tax	-	275
Deferred tax asset (note 16)	-	-
Other receivables	339	39
Prepayments and accrued income	<u>179</u>	<u>133</u>
	<u>18,926</u>	<u>17,139</u>

Amounts owed by group undertakings are unsecured, bear no interest and are repayable on demand.

13. TRADE AND OTHER PAYABLES: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>2019</u>	<u>2018</u>
	£'000	£'000
Bank loans and overdrafts (note 15)	1,200	1,200
Trade payables	3,361	1,984
Amounts owed to group undertakings	25,074	22,634
Other payables	80	165
Taxation and social security	2,556	-
Accruals and deferred income	<u>3,001</u>	<u>6,638</u>
	<u>35,272</u>	<u>32,621</u>

Amounts owed to group undertakings are unsecured, bear no interest and are repayable on demand.

14. TRADE AND OTHER PAYABLES: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	<u>2019</u>	<u>2018</u>
	£'000	£'000
Bank loans (note 15)	38,834	41,789
Accruals and deferred income	<u>459</u>	<u>442</u>
	<u>39,293</u>	<u>42,231</u>

15. BANK BORROWINGS

Bank loans and facilities are repayable as follows:

	2019	2018
	£'000	£'000
Within one year	1,200	1,200
Due in more than one year	39,365	42,610
Unamortised issue costs	(531)	(821)
	<u>40,034</u>	<u>42,989</u>

Borrowings at 31 March 2019 of £40,565k (2018: £43,810k) are secured by fixed securities over certain Group assets, a floating charge over Scottish Milk Products Limited and a debenture over First Milk Limited and The First Milk Cheese Company Limited. These facilities are subject to financial covenants.

The directors consider that the carrying amount of bank borrowings approximates to their fair value.

16. DEFERRED TAX

	2019	2018
	£'000	£'000
Deferred tax (assets) / liabilities		
Provision at start of period	-	-
Deferred tax charge to income and statement for the period	-	-
Adjustment in respect of prior years	-	-
	<u>-</u>	<u>-</u>
Deferred tax (assets) not recognised at the closing rate of 17%		
Fixed assets	(785)	(717)
Timing differences - trading	71	115
Losses	(3,432)	(4,282)
	<u>(4,146)</u>	<u>(4,884)</u>

17. OPERATING LEASE COMMITMENTS

Annual commitments under non-cancellable operating leases are as follows:

	2019	2018
	£'000	£'000
In respect of land and buildings:		
Within one year	-	-
Within two to five years	1	1
Later than 5 years	20	21
	<u>21</u>	<u>22</u>
In respect of plant, equipment and motor vehicles:		
Within one year	92	89
Within two to five years	130	193
Later than 5 years	-	-
	<u>222</u>	<u>282</u>

18. CALLED UP SHARE CAPITAL

	2019	2018
	£'000	£'000
Authorised		
28,000,000 (2018: 28,000,000) ordinary shares of £1 each	<u>28,000</u>	<u>28,000</u>
Allotted and fully paid		
28,000,000 (2018: 28,000,000) ordinary shares of £1 each	<u>28,000</u>	<u>28,000</u>

The Company has one class of ordinary shares which carry no right to fixed income.

19. CAPITAL COMMITMENTS

	2019	2018
	£'000	£'000
Contracts placed for future capital expenditure not provided in the financial statements	<u>-</u>	<u>4,339</u>

20. RELATED PARTY TRANSACTIONS

During the year, the Company made sales to Fast Forward FFW Limited (a joint venture between First Milk Limited and Fonterra (Europe) Coöperatie U.A) of liquid whey of £5.6m (2018: £5.5m) and manufacturing services of £5.6m (2018: £5.5m). Included within trade debtors at 31 March 2019, is a balance owed by Fast Forward FFW Limited amounting to £430k (2018: £313k).

21. IMMEDIATE AND ULTIMATE PARENT COMPANY

The immediate and ultimate parent company and the smallest and largest company into which the results are consolidated is First Milk Limited which is registered under the Co-operative and Community Benefit Societies Act 2014, Registration number IP29199R. Copies of the financial statements of First Milk Limited are available from the Company Secretary, First Milk Limited, Cirrus House, Glasgow Airport Business Park, Marchburn Drive, Paisley, PA3 2SJ.