Company Number 05893846

THE FIRST MILK CHEESE COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

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DIRECTORS

Shelagh Hancock
Greg Jardine

COMPANY SECRETARY

Angus Waugh

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SOLICITORS

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The directors of The First Milk Cheese Company Limited (the "Company") present their strategic report for the year ended 31 March 2020. 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 13 to 29 detail the trading results of the Company for the year ended 31 March 2020 and the financial position as at that date.

The Company's turnover increased during the year ended 31 March 2020 by £7,559k to £203,160k. The result for the year before taxation (excluding exceptional costs) was a profit of £3,900k (2019: £2,156k). After exceptional income of £321k (2019: £2,028k) the profit before taxation was £4,221k (2019: £128k).

The exceptional administrative expenses in the year to 31 March 2020 comprise of professional fees of £89k in relation to the potential sale of the Scottish Creameries, £472k in relation to payroll and redundancy costs and a credit of £882k in relation to the strike-off of Scottish Milk Dairies Limited, Kingdom Cheese Company Limited, KCSUBCO 1 Limited and Kingdom Cheese Company (1999) Limited as these companies were dormant and no longer required by the Group.

The exceptional administrative expenses in the year to 31 March 2019 comprised 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 reflected 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.

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	**2020**	**2019**
Turnover	£203,160k	£195,601k
Operating profit (before exceptional items)	£4,589k	£3,407k
Profit for the year	£4,190k	£128k
Total capital and reserves	£28,313k	£24,123k
Net bank debt	£2,200k	£40,368k

Turnover for 2019-2020 increased by 4% to £203m. Cheese sales increased in the UK through Ornua Foods UK, while export sales with our export cheese partner increased by 14% to £44m. Our operating profit (before exceptional items) of £4,589k (2019: £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 improvement in net profit relative to operating profit year on year is due to higher exceptional costs, principally related to a £2m impairment of assets, in the prior year.

The Group's balance sheet continues to strengthen, with net asset growth across the financial year to £28, 313k. 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.
- 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 2020.

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

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 Ornua 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 polices 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.

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.

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.

PRINCIPAL RISKS AND UNCERTAINTIES

COVID-19
The COVID-19 pandemic has created short-term and long-term risks.

In the short term, absence levels at the Company's sites as a result of COVID-19 were monitored constantly and there was regular communication with members, partners, industry bodies and government so that any potential interruption to supply chain could be identified as early as possible and addressed. In addition, in the short term, office staff had to work from home. The communication challenges that this raised were addressed through the use of video conferencing facilities.

In the first few months of the new year, COVID-19 has not had a material effect on the Company's financial performance. The majority of our customers are exposed to retail, the area least affected by the outbreak. At the manufacturing sites absence levels as a result of COVID-19 were monitored constantly, to ensure any potential interruption to supply chain was identified as early as possible and addressed. Absence levels remained low and we have continued to see maximum throughput at the creameries during the spring flush.

The long term economic impact of the pandemic is not known. The board will address this risk by monitoring developments and will factor potential impacts into its decision making

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.

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.

ENERGY AND CARBON REPORTING

We only have one planet, and we all share the responsibility for protecting and enhancing the environment we live and work in, whilst reducing the use of natural resources.

We have committed to targeting an annual 3% relative reduction in energy at our processing sites, which combines into a 65% relative reduction in CO_2e, a 40% relative reduction in energy and a 30% relative reduction in water use by 2025 against 2008 baseline.

Emissions data, in tonnes of CO_2e, for 2019 and 2020 is provided in the following table:

		2020	2019
Emissions of carbon dioxide equivalent from activities for which the company is responsible involving combustion of gas (Scope 1)	Tonnes CO_2e (UK)	14,819	15,677
Emissions of carbon dioxide equivalent from the purchase of electricity (Scope 2)	Tonnes CO_2e (UK)	6,968	7,094
Total gross GHG emissions	Tonnes CO_2e (UK)	21,787	22,771
Energy consumption used to calculate above emissions (Scope 1 and 2)	kWh (UK)	93,994,320	98,911,762
Intensity Ratio (total GHG emissions per kg Milk)	kgCO_2e per kg Milk	0.037	0.042

Methodology

- Emission releasing activities are categorised into Scope 1 (Direct) and Scope 2 (Indirect) defined by the World Resources Institute / World Business Council for Sustainable Development.
- Scope 1 figures include fuel combustion and process emissions taking measurements in Kwh (of gas), then converting these values to CO_2e.
- Scope 2 figures include consumption of purchased electricity in Kwh, then converting these values to CO_2e.
- The intensity ratio is kg of CO2e per kg of milk processed.

As you can see, the reduction in energy use and CO_2e emissions is significantly ahead of our annual 3% target, a 11% reduction year on year. This was assisted by increased utilisation of the sites as well as capital expenditure projects at sites that have seen heat recovery deliver increased efficiency of pasteurisation.

SECTION 172(1) STATEMENT

In accordance with the Companies Act 2006 (the "Act") (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the directors provide the following statement describing how they have had regard to the matters set out in section 172(1) of the Act when performing their duty to promote the success of the Company under section 172.

The company is a subsidiary of First Milk Limited ("First Milk"), and as such follows many of the processes and practices of First Milk, which are referred to in this statement where relevant.

The directors acknowledge that one of the primary responsibilities of the board is to ensure that the strategy of the company, as aligned to First Milk, achieves long-term success and generates sustainable returns, central to which is ensuring engagement with First Milk's members and other stakeholders, and considering in all instances the long-term implications of decisions made, acting at all times to maintain the highest possible standards of conduct. This approach has been central to the activities of the board of directors during the course of the year, as discussed below.

Shareholder and its members.
The Company has only one shareholder, namely its parent, First Milk. First Milk is a farmer owned co-operative and so the farmer members of First Milk, who also supply most of the milk that First Milk buys, are the Company's key stakeholders. First Milk's strategic objective is to deliver long-term prosperity for members, primarily through milk price, whilst retaining sufficient profits to meet business obligations and commitments across the group, including the Company.

SECTION 172(1) STATEMENT (CONTINUED)

Relationships with Suppliers and Customers
The directors are committed to seek value in mutually beneficial partnerships, providing prosperity for all involved.

The Company's key customers are Ornua Foods UK Limited and Hoogvegt Cheese B.V. and it fosters relationships with them by supplying quality cheese and providing first class pro-active service levels.

The Company also builds strong relationships with other customers and suppliers through regular communications and pro-active management of contracts.

The interests of Employees
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 an induction process for new employees, team briefings, newsletters, a company intranet and any other appropriate means of individual or collective consultation.

A Company-wide employee engagement survey is carried out each year. The directors communicate the results of the survey to employees and take appropriate action after reviewing the results.

The Company also involves its employees at its two manufacturing sites in the pro-active management of health and safety, including their participation in site health and safety committees.

The Company has also invested in leadership training for its managers to embed performance and embed values.

Community and the environment
The Company and First Milk recognise their responsibility to act sustainably and to play their part in protecting and enhancing the global environment. The directors have acted on their duty to have regard to the impact of the company's operations on the community and the environment in the following ways.

Community
By contributing to delivering long-term prosperity for First Milk's farmer members, the Company contributes to the sustainability of the farming communities in which the members live.

Employees at the Company's Haverfordwest site developed Project Make-a-Difference, to encourage all staff at the site to embrace the Company's sustainability goals and to foster teamwork. This saw colleagues making simple changes such as eliminating the use of single use plastic water cups, and using recycled paper. This initiative was run by the Safety, Health and Environment committee at the site, who were recognised by the local Council as 'eco champions' for their work in this area. The group also organised a beach clean for site staff at the local Freshwater East beach, making a positive difference to the local community.

Environment
The directors agreed to install a Combined Heat and Power (CHP) plant at its Haverfordwest site, to reduce the Company's energy use and improve its environmental performance.

A large-scale anaerobic digester plant at the Company's Lake District Creamery site in Cumbria converts waste product from the creamery to gas, which brings significant environmental benefits. The directors approved the purchase of Lake District Biogas Limited, which operates the anaerobic digester plant.

During the year, the Company improved its energy efficiency in the areas of energy efficiency, CO2 emissions, food waste and waste to landfill.

Approved by the Directors
and signed by order of the Board

Angus Waugh

Angus Waugh
Company Secretary
30 June 2020

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2020.

FUTURE DEVELOPMENTS

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

DIVIDENDS

No dividends were paid during the year (2019: £nil) and no recommendation is made in respect of dividends to be paid (2019: £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 (2019: £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 2020 saw a fourth 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 £7,484k (2019: £7,202k). Net profit for the year of £4,496k, compared to a profit of £2,665k in 2019. In the first three months of the year to 31 March 2021 trading and operational performance is tracking in line with the projections set at the beginning of the year. COVID-19 has not had a material effect on First Milk's financial performance to date. The majority of our customers are exposed to the area least affected by the outbreak, namely retail. In the short term, absence levels at our manufacturing sites as a result of COVID-19 were monitored constantly to ensure any potential interruption to supply chain was identified as early as possible and addressed and we have continued to see maximum throughout at the creameries during the spring flush.

Our strategic objective is to deliver above market total returns to our farmer members, primarily through milk price, whilst investing in our business for the future. As well as delivering our operating profit strong operational efficiencies and a solid business performance has enabled us to further strengthen our relative milk price, measured by the improvement in the 12 month rolling averages Milk Price Index (MPI).

The Group's net bank debt reduced from £41,136k to £33,137k during the year, as a result of positive operating cash flow and working capital inflows. While, borrowings have increased since year-end this is in relation to the normal seasonal flow of funds and net debt and facility headroom remains in line with budget.

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 £0.7m.

In April 2020, the business renewed its facilities agreement with a debt provider, Wells Fargo for a further four year term. These facilities, repayable on 31 July 2024, 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.

The maximum facility available to the Group is £74 million, with the amount available at any time dependant on the value of stock and debtors and is based on a percentage draw-down specified in the facility agreement and a term loan. The amount available from the revolving facility at 30 June 2020 was £59,833k (31 March 2020: £51,139k). In addition to the facility there is a term loan based on fixed asset values which at 30 June 2020 was £4,986k (31 March 2020: £2,200k). 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 business will ensure profitability is achieved and returns to members, primarily through milk price are maximised, whilst also retaining sufficient profits to meet our business obligations and commitments;
- there is no material adverse impact in the bank facilities available to the Group as a result of the market value of stock falling, given this is a key feature in establishing the amount of borrowing facilities available to the Group, or other adverse working capital movements;
- key customer and supplier contracts continue as per their existing commercial arrangements over the contractually agreed periods and;
- COVID-19 does not have a material effect on First Milk's financial performance.

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

GOING CONCERN (CONTINUED)

Conclusion on Going Concern
At the date of these financial statements, the directors consider that, based upon the information available, financial projections and the existence of debt facilities which will be available until 31 July 2024, the Group will have adequate resources to continue in operational existence for the foreseeable future (being at least twelve months from the approval of these accounts) and consider it appropriate to adopt the going concern basis in preparing the financial statements.

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.

SECTION 172(1) STATEMENT

The directors Section 172(1) statement is contained in the strategic report on pages 5 and 6.

ENERGY AND CARBON REPORTING

Energy and carbon reporting disclosures are presented in the strategic report on page 5.

PRINCIPAL RISKS AND UNCERTAINTIES

Principal risks and uncertainties are detailed in the Strategic Report on page 3.

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 11 and 12.

ENERGY AND CARBON REPORTING

POST BALANCE SHEET EVENTS

On 6 April 2020, First Milk renewed long-term debt arrangements with Wells Fargo Capital Finance (UK) Limited.

On 18 June 2020, the capital grants held for Campbeltown at 31 March 2020 were repaid back to the Scottish Government.

Approved by the Directors
and signed by order of the Board

Angus Waugh

Angus Waugh
Company Secretary
30 June 2020

Independent auditor's report to the members of The 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 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2020 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 22.

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
30 June 2020

	Note	2020 £'000	2019 £'000
Turnover	2	203,160	195,601
Cost of sales		(197,140)	(191,494)
Gross profit		6,020	4,107
Administrative expenses:			
Recurring		(1,431)	(700)
Exceptional	3	321	(2,028)
		(1,110)	(2,728)
Operating profit	4	4,910	1,379
Finance income	7	3	3
Finance costs	8	(692)	(1,254)
Profit activities before taxation		4,221	128
Tax on profit	9	(31)	-
Profit for the financial year		4,190	128

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	2020 £'000	2019 £'000
Fixed assets			
Property, plant and equipment	10	30,344	29,107
Current assets			
Inventories	11	50,072	50,460
Trade and other receivables	12	12,670	18,926
Cash and cash equivalents		10,527	197
		73,269	69,582
Trade and Other Payables: amounts falling due within one year	13	(75,158)	(35,272)
Net current (liabilities) / assets		(1,889)	34,310
Total assets less current liabilities		28,455	63,417
Trade and other payables: amounts falling due after more than one year	14	(142)	(39,293)
Net assets		28,313	24,123
Capital and reserves			
Called up share capital	18	28,000	28,000
Capital Contribution Reserve		37,000	37,000
Profit and loss account		(36,687)	(40,877)
Total shareholders' funds		28,313	24,123

The accounting policies and notes on pages 16 to 29 are an integral part of these financial statements.

The financial statements on pages 13 to 29 were approved by the Board of Directors on 30 June 2020 and signed on its behalf by:

Greg Jardine

Greg Jardine
Director

	Called up share capital	Capital contribution reserve	Profit and loss account	Total
	£'000	£'000	£'000	£'000
Balance at 1 April 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
Profit from total comprehensive income for the year	-	-	4,190	4,190
Balance at 31 March 2020	**28,000**	**37,000**	**(36,687)**	**28,313**

1. ACCOUNTING POLICIES

General information
The Company is a private Company, limited by shares, incorporated in the United Kingdom under the Companies Act 2006 and is registered in registered in Scotland. The registered office is Glasgow Airport Business Park, 9 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 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.

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, Glasgow Airport Business Park, 9 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.

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.

1. ACCOUNTING POLICIES (CONTINUED)

Going Concern (continued)

Current Trading and Borrowings
The year to 31 March 2020 saw a fourth 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 £7,484k (2019: £7,202k). Net profit for the year is £4,496k, compared to a profit of £2,665k in 2019. In the first three months of the year to 31 March 2021 trading and operational performance is tracking in line with the projections set at the beginning of the year. COVID-19 has not had a material effect on First Milk's financial performance to date. The majority of our customers are exposed to the area least affected by the outbreak, namely retail. In the short term, absence levels at our manufacturing sites as a result of COVID-19 were monitored constantly to ensure any potential interruption to supply chain was identified as early as possible and addressed and we have continued to see maximum throughout at the creameries during the spring flush.

Our strategic objective is to deliver above market total returns to our farmer members, primarily through milk price, whilst investing in our business for the future. As well as delivering our operating profit strong operational efficiencies and a solid business performance has enabled us to further strengthen our relative milk price, measured by the improvement in the 12 month rolling averages Milk Price Index (MPI).

The Group's net bank debt reduced from £41,136k to £33,137k during the year, as a result of positive operating cash flow and working capital inflows. While, borrowings have increased since year-end this is in relation to the normal seasonal flow of funds and net debt and facility headroom remains in line with budget.

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 £0.7m.

In April 2020, the business renewed its facilities agreement with a debt provider, Wells Fargo for a further four year term. These facilities, repayable on 31 July 2024, 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.

The maximum facility available to the Group is £74 million, with the amount available at any time dependant on the value of stock and debtors and is based on a percentage draw-down specified in the facility agreement and a term loan. The amount available from the revolving facility at 30 June 2020 was £59,833k (31 March 2020: £51,139k). In addition to the facility there is a term loan based on fixed asset values which at 30 June 2020 was £4,986k (31 March 2020: £2,200k). 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 business will ensure profitability is achieved and returns to members, primarily through milk price are maximised, whilst also retaining sufficient profits to meet our business obligations and commitments;
- there is no material adverse impact in the bank facilities available to the Group as a result of the market value of stock falling, given this is a key feature in establishing the amount of borrowing facilities available to the Group, or other adverse working capital movements;
- key customer and supplier contracts continue as per their existing commercial arrangements over the contractually agreed periods and;
- COVID-19 does not have a material effect on First Milk's financial performance.

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

1. ACCOUNTING POLICIES (CONTINUED)

Going Concern (continued)

Conclusion on Going Concern
At the date of these financial statements, the directors consider that, based upon the information available, financial projections and the existence of debt facilities which will be available until 31 July 2024, the Group will have adequate resources to continue in operational existence for the foreseeable future (being at least twelve months from the approval of these accounts) and consider it appropriate to adopt the going concern basis in preparing the financial statements.

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.

1. ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)
The Parent company operates a defined contribution plan for its employees, a Stakeholder Group Pension Plan with Standard Life. 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.

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. The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 19% (2019: 19%).

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'.

1. ACCOUNTING POLICIES (CONTINUED)

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.

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.

1. ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (continued)

i) Financial assets (continued)

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.

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 £3.3m (2019: £3.7m) relating to services supplied during the year.

The majority of turnover is to the UK with £44.5m (2019: £39.0m) being to Continental Europe. Sales to the rest of the world were £0.01m (2019: £0.01m).

3. ADMINISTRATIVE EXPENSES

The exceptional administrative expenses in the year to 31 March 2020 comprise of professional fees of £89k in relation to the potential sale of the Scottish Creameries, £472k in relation to payroll and redundancy costs and compensation and a non-cash entry of £882k for the strike-off of Scottish Milk Dairies Limited (£364k), Kingdom Cheese Company Ltd (£5k), KCSUBCO 1 Limited (£508k) and Kingdom 99 (£5k) since they were dormant and was no longer required by the Group.

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.

4. OPERATING PROFIT

Operating profit is stated after charging / (crediting):

	2020	2019
	£'000	£'000
Depreciation of property, plant and equipment	3,773	3,575
Operating lease rentals		
- plant and equipment	80	92
- land and buildings	-	-
Auditor's remuneration		
- audit of the financial statements	77	70
- tax services	15	84
Government grants released	(151)	(83)
Loss on disposal of fixed assets	-	104

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

	2020	2019
	£'000	£'000
Wages and salaries	5,501	5,880
Social security costs	528	555
Other pension costs	280	291
	6,309	6,726

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

Employee numbers	Number	Number
Administration	6	2
Production	171	181
	177	183

7. FINANCE INCOME

	2020	2019
	£'000	£'000
Interest on short term deposits with banks	3	3

8. FINANCE COSTS

	2020	2019
	£'000	£'000
Bank loans and overdraft	692	1,254

9. TAX ON PROFIT

	2020	2019
	£'000	£'000
Current tax		
Adjustment in respect of previous periods	31	-
Deferred tax charge		
Origination and reversal of temporary differences	-	-
Adjustments to previous years	-	-
Effects of changes in tax rates	-	-
Total deferred tax	-	-
Tax on profit	31	-

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 19% (2019: 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:

	2020	2019
	£'000	£'000
Profit before taxation	4,221	128
Tax on profit at standard rate of 19% (2019: 19%)	802	24
Factors affecting the charge for the year:		
Expenses not deductible	71	13
Effects of group relief / other reliefs	(200)	-
Adjustment in respect of previous periods	31	-
Income not taxable	(173)	-
Deferred tax not provided	(500)	(37)
Total tax charge	31	-

Finance Bill 2016 had previously enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020 and accordingly the deferred tax at 31 March 2019 had been calculated at this rate. However, in the March 2020 Budget it was announced that the reduction will not occur and the Corporation Tax Rate will be held at 19%. The Provisional Collection of Taxes Act was used to substantively enact the revised 19% tax rate on 17 March 2020 and accordingly the deferred tax balances have been re-calculated to 19% at the year ended 31 March 2020.

The rate used to calculate deferred tax in these Financial Statements is 19% (2019: 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 2019	6,204	57,708	63,912
Additions	-	5,062	5,062
Transfers	764	(764)	-
Disposals	-	(76)	(76)
At 31 March 2020	6,968	61,930	68,898
Accumulated depreciation:			
At 1 April 2019	1,806	32,999	34,805
Charge for the year	372	3,401	3,773
Transfers	31	(31)	-
Disposals	-	(24)	(24)
At 31 March 2020	2,209	36,345	38,554
Net book value:			
At 31 March 2020	4,759	25,585	30,344
At 31 March 2019	4,398	24,709	29,107

11. INVENTORIES

	2020	2019
	£'000	£'000
Raw materials and consumables	2,961	4,013
Finished goods and goods for sale	47,111	46,627
	50,072	50,640

The amount of Inventories recognised as an expense during the year was £197,140k (2019: £191,494k).

12. TRADE AND OTHER RECEIVABLES

	2020	2019
	£'000	£'000
Trade receiveables	11,931	18,158
Amounts owed by other group undertakings	398	250
Value added tax	184	-
Deferred tax asset (note 16)	-	-
Other receivables	100	339
Prepayments and accrued income	57	179
	12,670	18,926

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

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

	2020	2019
	£'000	£'000
Bank loans and overdrafts (note 15)	1,954	1,200
Trade payables	440	3,361
Amounts owed to group undertakings	67,724	25,074
Other payables	78	80
Taxation and social security	52	2,556
Accruals and deferred income	4,910	3,001
	75,158	35,272

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

	2020	2019
	£'000	£'000
Bank loans (note 15)	-	38,834
Accruals and deferred income	142	459
	142	39,293

15. BANK BORROWINGS

Bank loans and facilities are repayable as follows:

	2020	2019
	£'000	£'000
Within one year	2,200	1,200
Due in more than one year	-	39,365
Unamortised issue costs	(246)	(531)
	1,954	40,034

Borrowings at 31 March 2020 of £2,200k (2019: £40,565k) 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 debt amount was drawn down by First Milk Limited and not First Milk Cheese Company, this debt is offset by an increase in amounts owed to group undertakings (note 13). Post year-end £40,000k debt was repaid to the group by debt drawn down from the Wells Fargo facility.

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

16. DEFERRED TAX

	2020	2019
	£'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	-	-
	-	-
Deferred tax (assets) not recognised at the closing rate of 19%		
Fixed assets	(1,870)	(785)
Timing differences - trading	140	71
Losses	(2,261)	(3,432)
	(3,991)	(4,146)

Finance Bill 2016 had previously enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020 and accordingly the deferred tax at 31 March 2019 had been calculated at this rate. However, in the March 2020 Budget it was announced that the reduction will not occur and the Corporation Tax Rate will be held at 19%. The Provisional Collection of Taxes Act was used to substantively enact the revised 19% tax rate on 17 March 2020 and accordingly the deferred tax balances have been re-calculated to 19% at the year ended 31 March 2020.

The rate used to calculate deferred tax in these Financial Statements is 19% (2019: 17%), since this is the expected rate that will apply when the deferred tax timing differences reverse.

17. OPERATING LEASE COMMITMENTS

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

	2020	2019
	£'000	£'000
In respect of land and buildings:		
Within one year	-	-
Within two to five years	1	1
Later than 5 years	20	20
	21	21
In respect of plant, equipment and motor vehicles:		
Within one year	80	92
Within two to five years	98	130
Later than 5 years	-	-
	177	222

18. CALLED UP SHARE CAPITAL

	2020	2019
	£'000	£'000
Authorised		
28,000,000 (2019: 28,000,000) ordinary shares of £1 each	28,000	28,000
Allotted and fully paid		
28,000,000 (2019: 28,000,000) ordinary shares of £1 each	28,000	28,000

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

19. CAPITAL COMMITMENTS

	2020	2019
	£'000	£'000
Contracts placed for future capital expenditure not provided in the financial statements	982	-

20. RELATED PARTY TRANSACTIONS

During the three months to 30th June 2019, 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 £1.5m (12 months to 31 March 2019: £5.6m) and manufacturing services of £0.9m (12 months to 31 March 2019: £5.6m). On 30 June 2019, First Milk purchased 51% of the share capital of Fast Forward FFW Limited from Fonterra (Europe) Cooperative U.A. FFW Fast Forward Ltd ceased being a joint venture from that date.

From 1 July to 31 March 2020, the Company made sales to Fast Forward FFW Limited of liquid whey of £2.6m and manufacturing services of £1.6m.

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, Glasgow Airport Business Park, 9 Marchburn Drive, Paisley, PA3 2SJ.

22. POST BALANCE SHEET EVENTS

On 6 April 2020, First Milk renewed long-term debt arrangements with Wells Fargo Capital Finance (UK) Limited.

On 18 June 2020, the capital grants held for Campbeltown at 31 March 2020 were repaid back to the Scottish Government.