Pork Farms Limited

Annual report and financial statements

Registered number 05998346

53 weeks ended 31 March 2018

Contents

Strategic report

Principal Activity

The principal activity of the company is the manufacture of chilled savoury pastry for the retail, impulse and foodservice markets, in both branded and retailer branded products.

Business Model

The business is well known for being an innovative supplier to the market and has introduced several new products each year. This is done through our own development chefs, in collaboration with our customers. The company operates in six key chilled savoury snack markets; hot pie, cold pie, rolls, quiche, scotch eggs and bites. Each of the company's four UK sites specialises in one or two of these markets.

Ingredient prices are often driven by commodity markets, but are monitored and where appropriate the company takes steps to fix costs.

The manufacturing process is under constant review and where appropriate the business invests in capital projects to improve processes and reduce its cost base.

Business review and results

During the period ended 31 March 2018, the company continued to build on its improved productivity, with further investment in the business.

	53 weeks to 31 Mar 2018 £m	52 weeks to 25 Mar 2017 £m
Turnover	187.4	166.9
Operating profit after exceptional costs	12.0	13.5
Exceptional costs	0.6	1.4
Profit after tax	6.7	6.4
Net current assets (including debtors due after more than one year)	12.9	15.9
Debtors due after more than one year	5.0	2.6
Net liabilities	29.7	36.4

The directors do not recommend the payment of a dividend (2017: £nil).

The company continues to enjoy the full support of its employees, its finance provider, PNC Financial Services UK Limited, Addo Food Group (Services) Limited's finance providers, and its ultimate parent company's principal equity and loan stock providers, investment funds managed by LDC (Managers) Limited. The company's retail banking facilities continue to be provided by Lloyds Bank plc.

Key performance indicators

Management review the following key performance indicators on a monthly basis. Turnover has increased but operating margins are under pressure from customer demands and cost inflation.

	2018 53 weeks	2017 52 weeks	2016 52 weeks	2015 52 weeks
Turnover	£187.4m	£166.9m	£152.4m	£158.4m
Sales per employee	£130.9k	£122.7k	£114.3k	£109.6k
Operating margin before exceptional costs	6.7%	9.0%	5.1%	3.3%
Debtor days	40 days	38 days	34 days	28 days

Principal risks and uncertainties

Trading environment

The company's main customers are the UK's leading supermarkets and food retailers. The strength of these customers, combined with competitive pressure in the industry, represent continuing risks that could result in lost sales to key competitors.

The company seeks to manage the risks presented by its consolidated customer base, and the competitive supply side environment that characterises the industry, through a strategy of pursuing a competitive high standard of service and quality and a low cost model targeted across a portfolio of categories where it has good market positions.

The company manages commodity price changes by a forward buying strategy.

Strategic report *(continued)*

Financing risk

The company is financed by fixed rate inter-company loans from its parent company and by bank loans. The company is therefore exposed to interest rate risk in respect of its bank loans only.

Going concern

A going concern forecast has been prepared in accordance with guidance issued by the Financial Reporting Council (FRC) 'Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks 2016'. The directors have set out in the accounting policies, the basis of preparation and appropriate disclosures as to how a positive assessment on going concern has been reached.

Loan stock – pro forma net assets

As described in note 15, the company has a significant amount of loan stock held by its shareholders. The loan stock is repayable on 13 January 2037.

Accounting standards required this loan stock to be treated as a liability of the company rather than an equity instrument within capital and reserves.

Given the nature of the loan stock, the directors are of the opinion that it would be appropriate to provide a pro forma statement of net assets showing this loan stock as equity as follows:

	Note	2018 £000	2017 £000
Fixed assets		20,594	18,178
Net current liabilities		12,876	15,934
Creditors: amounts falling due after more than one year	*15*	(63,164)	(70,525)
Net liabilities from statutory balance sheet		(29,694)	(36,413)
Loan stock	*15*	63,164	64,817
Net assets on a pro forma basis		33,470	28,404

Corporate responsibility

The company has identified the following main areas of corporate responsibility, risk and uncertainty, which are reviewed monthly to ensure progress continues to be made.

Food safety

All of the company's sites hold a Grade A* British Retail Consortium Technical Grading and all have been successfully audited by both our customers and their local Trading Standards and Environmental Health bodies. Pork Farms Limited has in place a central supplier auditing function that approves and monitors all raw material and packaging suppliers in conjunction with the site procurement teams. The company also continues to move its technical standards forward in line with our brand and customer requirements.

Fair treatment of customers and suppliers

Pork Farms Limited's customers expect consistently high quality products that meet all regulatory requirements and have been manufactured to high ethical standards. Pork Farms Limited aims to deal honestly with customers and suppliers, securing their loyalty and trust by providing outstanding products and service.

Transparency in all our dealings

The company will ensure clear and consistent communication with all stakeholders and honour its promises.

Employee welfare

Pork Farms Limited is recognised as a key employer with a workforce that is representative of the communities where the factories are based. The company strives to achieve an environment that encourages mutual respect and teamwork, where personal performance matters and employees are encouraged to develop and reach their full potential. 'Wellbeing' weeks and events were introduced across the business to promote health and medical screening.

Strategic report *(continued)*

Learning and development

The directors are committed to encouraging the continuous development of all employees with the objective of optimising the overall performance of the business. Training steering groups are present on our sites along with training resources that enable the sites to manage customer and technical requirements to the appropriate standards.

Health and safety

Pork Farms Limited fully recognises and complies with the duties placed upon it under the Health and Safety at Work Act 1974 and all other relevant legislation to ensure a safe and healthy working environment. It also recognises the duty it has not only to staff, but also to customers, visitors and contractors and to any others who may be affected by its activities. The company uses risk assessment principles to manage Health and Safety risks. Each site has its own Health and Safety and Environmental manager and support team.

Equal opportunities

The company is committed to equality of opportunity amongst its employees. Recruitment, pay and conditions, training and career development policies are based solely on ability, without regard to gender, race, age, disablement, marital status or religion.

Employee engagement

The company uses a variety of methods to enable all of its employees to understand the performance of the company and of their own operating site. These include briefing groups, meetings with employee representatives and company newspapers. Employees are consulted on a wide range of issues affecting their current and future interests, and particularly on changes affecting their company. Employee surveys are used to gain valuable feedback.

Community involvement

Pork Farms Limited has four manufacturing sites in the UK. The company endeavours to be a 'good neighbour' in positively exercising its responsibilities towards the wider community.

Each site has a different involvement in the local community, involving schools via work experience or factory tours, together with sponsoring local events and landmarks.

Ethical trading

The company's Ethical Code of Practice is built on its core values and highlights the principles that guide 'how it does business'. The foundation of this code is underpinned by the Ethical Trading Initiative Base Code. The company's leadership and management team have an obligation to understand and consider this and ensure they both act in a manner that avoids any improper, illegal or unethical actions and champion this behaviour within the teams they manage. The company's code of practice is not limited to the policies and procedures which the company is committed to delivering, but also to ensuring that when its customers buy its products they are buying goods produced without exploitation and in acceptable working conditions and the company conducts its business with integrity and respect. Through these relationships, the company aims to provide customer confidence in its products, ensuring they are of a consistently high quality and that everyone in the supply chain is treated with honesty, fairness and respect.

Environmental responsibility

The company recognises that its operations have a direct and indirect impact on both the wider environment and the environments in which it operates. The company is committed to working continuously, in collaboration with its stakeholders and employees, to contribute positively to environmental sustainability. The company recognises the importance of its environmental responsibility and monitors its impact on the environment and designs and implements policies to reduce any damage that might be caused by the company's activities. Each of the company's individual sites has its own environmental plan to reduce the impact it may have and reduce the effects of the wider group on the environment. The company is working with M&S and adopting their initiative 'Plan A', whereby all packaging has been reduced in weight and switched to recyclable packaging.

Recycling

Where possible, food waste is used as bio fuel in preference to landfill. Additionally, plastic and cardboard containers are recycled.

Strategic report *(continued)*

Future developments

The company will continue to grow volume and profitability through innovation, customer service, product quality and continued investment in its assets.

Signed on behalf of the board

Graham Rutter
Secretary
28 September 2018

Tottle Bakery
Queens Drive
Nottingham
NG2 1LU

Director's report

The directors present their directors' report and financial statements for the 53 weeks ended 31 March 2018.

Directors

The directors who held office during the year were as follows:

Christopher Peters
Graham Rutter
Mark Hodson
Gareth Voyle (resigned 19 April 2017)
Kenneth McGill (resigned 19 April 2017)

Political contributions

The company made no political donations or incurred any political expenditure during the year.

Walker report

This report has been prepared in the context of recommendations made in the Walker report "Guidelines for Disclosure and Transparency in Private Equity".

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps, that he ought to have taken as a director, to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Other information

The following information has been included in the Strategic Report on page 1:

- Future developments
- Employee consultation

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will continue as auditor of the company.

By order of the board

Graham Rutter
Secretary
28 September 2018

Tottle Bakery
Queens Drive
Nottingham
NG2 1LU

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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 result 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 estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the 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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG LLP

St Nicholas House
31 Park Row
Nottingham
NG1 6FQ
United Kingdom

Independent auditor's report to the members of Pork Farms Limited

Opinion

We have audited the financial statements of Pork Farms Limited ("the company") for the year ended 31 March 2018 which comprise the Profit and loss account and other comprehensive income, Balance sheet, Statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Independent auditor's report to the members of Pork Farms Limited *(continued)*

Directors' responsibilities

As explained more fully in their statement set out on page 6 , the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Craig Parkin (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
St Nicholas House
Park Row
Nottingham
NG1 6FQ

28 September 2018

Profit and loss account and other comprehensive income

for the 53 weeks ended 31 March 2018

	Note	53 weeks to 31 Mar 2018 Before exceptional items £000	Exceptional items (see note 3) £000	Total £000	52 weeks to 25 Mar 2017 Before exceptional items £000	Exceptional items (see note 3) £000	Total £000
Turnover	2	187,410	-	187,410	166,918	-	166,918
Cost of sales		(137,116)	(126)	(137,242)	(115,630)	(608)	(116,238)
Gross profit		50,294	(126)	50,168	51,288	(608)	50,680
Distribution costs		(7,184)	-	(7,184)	(6,785)	-	(6,785)
Administrative expenses		(34,413)	(475)	(34,888)	(34,200)	(811)	(35,011)
Other operating income		3,887	-	3,887	4,662	-	4,662
Operating profit	5	12,584	(601)	11,983	14,965	(1,419)	13,546
Interest receivable and similar income	8	7	-	7	246	-	246
Interest payable and similar expenses	9	(6,545)	-	(6,545)	(7,838)	-	(7,838)
Profit before taxation	4	6,046	(601)	5,445	7,373	(1,419)	5,954
Tax		1,274	-	1,274	400	-	400
Profit and total comprehensive income for the financial period		7,320	(601)	6,719	7,773	(1,419)	6,354

All of the activities during the period relate to continuing operations.

There is no other comprehensive income for the year other than the profit for the year as shown above.

Balance sheet
as at 31 March 2018

	Note	2018 £000	£000	2017 £000	£000
Fixed assets					
Tangible assets	*11*		20,594		18,178
Current assets					
Stock	*12*	4,411		3,683	
Debtors					
- due within one year	*13*	22,918		30,809	
- due after more than one year	*13*	5,039		2,600	
Cash at bank and in hand		11,883		17,153	
		44,251		54,245	
Creditors: amounts falling due within one year	*14*	(31,375)		(38,311)	
Net current assets			12,876		15,934
Total assets less current liabilities			33,470		34,112
Creditors: amounts falling due after more than one year	*15*		(63,164)		(70,525)
Net liabilities			(29,694)		(36,413)
Capital and reserves					
Called up share capital	*18*		2		2
Share premium account			12,690		12,690
Profit and loss account			(42,386)		(49,105)
Shareholders' deficit			(29,694)		(36,413)

These financial statements were approved by the board of directors on 28 September 2018 and were signed on its behalf by:

Graham Rutter
Director

Registered number 05998346

Statement of changes in equity

for the 53 weeks ended 31 March 2018

	Called-up share capital £000	Share premium account £000	Profit and loss account £000	Total equity £000
At 26 March 2016	2	12,690	(55,459)	(42,767)
Profit	-	-	6,354	6,354
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	6,354	6,354
At 25 March 2017	2	12,690	(49,105)	(36,413)
Profit	-	-	6,719	6,719
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	6,719	6,719
At 31 March 2018	2	12,690	(42,386)	(29,694)

Notes

1. Accounting policies

Pork Farms Limited is a private company incorporated, domiciled and registered in England in the UK. The registered address is Tottle Bakery, Dunsil Drive, Nottingham, NG2 1LU.

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'.

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU, but makes amendments where necessary in order to comply with the Companies Act and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In the transition to FRS 101, the company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. In the transition to FRS 101, the company has made no measurement or recognition adjustments.

The company's ultimate parent undertaking, Addo Food Group (Holdings) Ltd, includes the company in its consolidated financial statements. The consolidated financial statements of Addo Food Group (Holdings) Ltd are prepared in accordance with International Financial Reporting Standards and available to the public and may be obtained from Addo Food Group (Holdings) Ltd, Tottle Bakery, Queens Drive, Nottingham, NG2 1LU.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A cash flow statement and related notes;
- comparative period reconciliations for share capital and tangible fixed assets;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs;
- key management personnel compensation.

As the consolidated financial statements of Addo Food Group (Holdings) Ltd include the equivalent disclosures, the company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- The disclosures required by IFRS 7 'Financial Instrument Disclosures'.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements, and in preparing an opening FRS 101 IFRS balance sheet at 26 March 2016 for the purposes of the transition to FRS 101.

Measurement convention

The financial statements are prepared on the historical cost basis.

Going concern

The directors have considered the FRC document "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies" when preparing the financial statements.

As at 31 March 2018, the company made a profit of £6.7m, had net liabilities of £29.7m and net current assets of £12.8m. Notwithstanding this, the directors have taken steps to ensure that they can conclude that the company has adequate resources to continue in business for the foreseeable future and thus that the going concern basis of preparation remains appropriate. The key considerations in this assessment are summarised below:

- A risk sensitised cash flow forecasting exercise performed for the period from the date of approval of these accounts until the end of March 2021 showed that the company has sufficient funds available to meet its debts, including interest payments, as they fall due over that period.
- There are uncertainties involved in the cash flow projections as not all cash flows are contracted, which is normal for the industry. The directors, however, have confidence in the cash flow forecasts based on their analysis of the historical performance of the acquired business, both before and after the acquisition, their knowledge of the industry and based on new business gained both during and after the period.
- In April 2017, a remaining group financing facility with PNC of £22.5m was extended until at least 19 April 2022. The group drew down a loan facility of £70.0m with a maturity date of 13 April 2024, and the group issued loan stock of £37.0m with a maturity date of 13 April 2024.
- Based on the cash flow forecasting exercise, no further funding will be required by the group for the forecasted period.
- The company has been successful in securing trade credit and the directors believe that credit insurance cover is being provided to some of the company's suppliers by Euler Hermes and Atradius.

Notes *(continued)*

1. Accounting policies *(continued)*

- Management reporting includes a forecast cash balance, and this is updated regularly to ensure that the company has visibility of its future cash availability.
- The markets in which the business operates are not considered to be at significant risk due to the current global economic downturn.
- There are not believed to be any contingent liabilities that could result in a significant impact on the business if they were to crystallise.
- The directors expect the loan facilities to either be renewed or repaid in full upon expiry.

Foreign currencies

Transactions in foreign currencies are translated to the company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates that the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

Classification of financial instruments issued by the company

Following the adoption of IAS 32, financial instruments issued by the company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other debtors

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

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Interest-bearing borrowings

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

Tangible fixed assets

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

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

Leases in which the entity assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Notes *(continued)*

1. Accounting policies *(continued)*

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

Plant and equipment	2-10 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Business combinations

All unincorporated business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the company.

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the company measures goodwill at the acquisition date as:

- the fair value of the consideration (excluding contingent consideration) transferred; plus
- estimated amount of contingent consideration (see below); plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Acquisitions prior to 25 March 2017 (date of transition to IFRSs)

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The company elected not to restate business combinations that took place prior to 25 March 2017. In respect of acquisitions prior to 25 March 2017, goodwill is included at 25 March 2017 on the basis of its deemed cost, which represents the amount recorded under UK GAAP which was broadly comparable save that only separable intangibles were recognised and goodwill was amortised. On transition, certain items recognised as other intangibles under Adopted IFRSs amortisation of goodwill has ceased as required by IFRS 1.

Intangible assets, goodwill and negative goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units. It is not amortised but is tested annually for impairment. This is not in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, which requires that all goodwill be amortised. The directors consider that this would fail to give a true and fair view of the profit for the year and that the economic measure of performance in any period is properly made by reference only to any impairment that may have arisen. It is not practicable to quantify the effect on the financial statements of this departure.

Negative goodwill

Negative goodwill arising on business combinations in respect of acquisitions is included within fixed assets and released to the profit and loss account in the periods in which the non-monetary assets arising on the same acquisition are recovered, whether through depreciation or sale. Any excess exceeding the fair value of non-monetary assets acquired shall be recognised in profit or loss in the periods expected to benefit.

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the profit and loss account as an expense as incurred.

Amortisation

Amortisation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use.

Stocks

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

Notes *(continued)*

1. Accounting policies *(continued)*

Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment, an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed.

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

Employee benefits

Defined contribution plans and other long term employee benefits

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

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Notes *(continued)*

1. Accounting policies *(continued)*

Termination benefits

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

Provisions

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

Turnover

Sales are recognised on despatch of goods.

Turnover consists of sales to third parties net of trade discounts and excluding VAT and sales taxes.

Expenses

Operating lease payments

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

Finance lease payments

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

Interest receivable and interest payable

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

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

Exceptional items

Exceptional items are those items that derive from events or transactions that have occurred during the year and that by virtue of their size or incidence need to be disclosed separately to enable a clearer understanding of the group's results.

Other operating income

Other operating income consists of management charges to group companies and proceeds from the disposal of waste.

Taxation

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

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

Notes *(continued)*

1. Accounting policies *(continued)*

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

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

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

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

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

Classification of financial instruments issued by the company

In accordance with FRS 102.22, financial instruments issued by the company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

(b) where the instrument will or may be settled in the entity's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the entity's own equity instruments or is a derivative that will be settled by the entity exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

2. Turnover

The turnover and profit before tax are attributable to the one principal activity of the company, and is all derived within the UK.

Notes *(continued)*

3. Exceptional items

	53 weeks to 31 Mar 2018 £000	52 weeks to 25 Mar 2017 £000
Cost of sales		
Staff reductions following restructuring	126	608
	126	608
Administrative expenses		
Restructuring consultancy	76	769
Group rebranding	-	8
Unscheduled power outage at manufacturing site	-	34
Bad debt arising on insolvency of large customers	184	-
Costs to reorganise production for additional volumes at one of the company's factories	214	-
	475	811
	601	1,419

Historically the group has experienced few and minor bad debts. The directors therefore consider the occurrence of two major bad debts in the year merits disclosure because of both the significant size of the debt written off and the uncommon nature of bad debts for the group given its customer base.

4. Other operating income

	53 weeks to 31 Mar 2018 £000	52 weeks to 25 Mar 2017 £000
Management charges to group companies	3,517	4,307
Waste income	130	143
Staff shop and canteen sales	240	212
	3,887	4,662

Notes *(continued)*

5. Expenses and auditor's remuneration

	53 weeks to 31 Mar 2018 £000	52 weeks to 25 Mar 2017 £000
Profit before taxation is stated after charging/(crediting):		
Depreciation and other amounts written off tangible fixed assets	4,706	4,625
Profit on sale of fixed assets	(16)	(10)
Impairment of stock recognised as an expense	678	809
Operating lease rentals: - plant and machinery	442	355
- property	2,467	2,349
- other assets	92	67
Auditor's remuneration:		
Audit of these financial statements	60	29
Amounts receivable by the auditor and their associates in respect of:		
Taxation compliance services	22	11
Taxation advisory services	30	43
Corporate finance services	-	224

6. Staff numbers and costs

The average number of persons employed by the company (including directors) during the period, analysed by category, is detailed below.

	53 weeks to 31 Mar 2018	52 weeks to 25 Mar 2017
	Number of employees	
Production	1,032	968
Administration	400	392
	1,432	1,360

The aggregate payroll costs of these persons were as follows:

	53 weeks to 31 Mar 2018 £000	52 weeks to 25 Mar 2017 £000
Wages and salaries	37,676	35,062
Social security costs	3,611	3,412
Contributions to defined contribution plans	882	806
	42,169	39,280

Notes *(continued)*

7. Directors' remuneration

	53 weeks to 31 Mar 2018 £000	52 weeks to 25 Mar 2017 £000
Directors' remuneration	383	559
Company contributions to money purchase pension schemes	21	25
Compensation for loss of office	46	-
	450	584
In relation to the highest paid director		
Directors' remuneration	163	195
Company contributions to money purchase pension schemes	-	-

The aggregate emoluments of the highest paid director were £163,862.

	53 weeks to 31 Mar 2018	52 weeks to 25 Mar 2017
	Number of directors	
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	3	4

8. Interest receivable and similar income

	53 weeks to 31 Mar 2018 £000	52 weeks to 25 Mar 2017 £000
Interest income on unimpaired financial assets	7	246
Total interest receivable and similar income	7	246
Income from group undertakings included above	5	243

Notes *(continued)*

9. Interest payable and similar expenses

	53 weeks to 31 Mar 2018 £000	52 weeks to 25 Mar 2017 £000
Interest expense on financial liabilities measured at amortised cost	6,524	7,838
Net foreign exchange loss	21	-
	6,545	7,838
Included above:		
On bank loans and overdrafts	358	692
On loans from group undertakings	6,139	7,122

10. Taxation

Recognised in the profit and loss account

	53 weeks to 31 Mar 2018 £000	£000	52 weeks to 25 Mar 2017 £000	£000
UK corporation tax				
Current tax on income for the period	-		-	
		-		-
Deferred tax (see note 17)				
Origination and reversal of temporary differences	1,182		-	
Recognition of previously unrecognised tax losses	(2,456)		(400)	
Total deferred tax		(1,274)		(400)
Tax on profit		(1,274)		(400)

Notes *(continued)*

Tax reconciliation

	53 weeks to 31 Mar 2018 £000	52 weeks to 25 Mar 2017 £000
Profit for the period	6,719	6,354
Total tax charge	(1,274)	(400)
Profit excluding taxation	5,445	5,954
Tax using the UK corporation tax rate of 19% (2018: 20%)	1,034	1,191
Non-deductible expenses	139	154
Recognition of previously unrecognised tax losses	(2,456)	(867)
Current year losses for which no deferred tax asset was recognised	-	(878)
Group relief	9	-
Total tax expense	(1,274)	(400)

An increase in the deferred tax asset of £2,456,000 has been recognised during the period in respect of brought forward tax losses due to an increase in future profitability against which the company expects to pay corporation tax.

11. Tangible fixed assets

	Plant and machinery £000
Cost	
At beginning of period	68,047
Additions	7,139
Disposals	(279)
At end of period	74,907
Depreciation	
At beginning of period	49,869
Charge for period	4,706
On disposals	(262)
At end of period	54,313
Net book value	
At 25 March 2017	18,178
At 31 March 2018	20,594

There were no assets held under finance leases included in the table.

The directors have reviewed the carrying value of tangible fixed assets by reference to value in use calculations and do not consider them to be impaired.

Notes *(continued)*

12. Stocks

	2018 £000	2017 £000
Raw materials and consumables	3,127	2,423
Work in progress	326	331
Finished goods and goods for resale	958	929
	4,411	3,683

13. Debtors

	2018 £000	2017 £000
Due within one year:		
Trade debtors	20,189	17,453
Amounts owed by group undertakings	496	9,675
Other debtors	1,126	1,099
Deferred tax asset (see note 17)	-	1,165
Prepayments and accrued income	1,107	1,417
	22,918	30,809
Due after more than one year:		
Deferred tax asset (see note 17)	5,039	2,600

14. Creditors: amounts falling due within one year

	2018 £000	2017 £000
Bank loans and overdrafts	7,078	13,109
Trade creditors	16,669	16,820
Amounts owed to group undertakings	-	-
Other taxes and social security	1,034	874
Other creditors	1,596	1,498
Accruals and deferred income	4,998	6,010
	31,375	38,311

15. Creditors: amounts falling due after more than one year

	2018 £000	2017 £000
Bank loans and overdrafts	-	5,708
Amounts owed to group undertakings	63,164	64,817
	63,164	70,525

Notes *(continued)*

16. Interest bearing loans and borrowings

This note provides information about the contractual terms of the company's interest bearing loans and borrowings, which are measured at amortised cost.

	2018 £000	2017 £000
Creditors falling due within one year		
Bank loans and overdrafts	7,078	13,109
Creditors falling due after more than one year		
Bank loans and overdrafts	-	5,708
Amounts owed to group undertakings	63,164	64,817
	63,164	70,525
Included in the above are the following amounts due after more than five years:		
Amounts owed to group undertakings	63,164	64,817

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of Maturity	Face value 2018 £000	Carrying amount 2018 £000	Face value 2017 £000	Carrying amount 2017 £000
Secured bank loan	GBP	2 ¼% over Barclays base rate	Rolling	7,078	7,078	10,768	10,768
Secured bank loan	GBP	3 ¼% over Barclays base rate	2018	-	-	4,584	4,584
Secured bank loan	GBP	4% over Barclays base rate	2018	-	-	3,465	3,465
Loan stock from parent	GBP	10%	2037	63,164	63,164	17,477	17,477
Loan stock from parent	GBP	10 ⅛%	2037	-	-	32,999	32,999
Loan stock from parent	GBP	20%	2037	-	-	10,535	10,535
Loan stock from parent	GBP	25 ⅛%	2037	-	-	3,806	3,806
				70,242	70,242	83,634	83,634

The bank loans above are secured by a fixed and floating charge on the company's assets and a charge on the company's shares.

Loan stock interest is rolled up onto the outstanding loan stock balance at the option of the company.

Notes *(continued)*

17. Deferred tax assets and liabilities

Recognised deferred tax assets

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000
Tangible fixed assets	2,533	3,364	-	-	2,533	3,364
Tax value of loss carry-forwards	2,420	399	-	-	2,420	399
Other	86	2	-	-	86	2
	5,039	3,765	-	-	5,039	3,765

	2016 £000	Recognised in income £000	2017 £000	Recognised in income £000	2018 £000
Tangible fixed assets	3,308	56	3,364	(831)	2,533
Tax value of loss carry-forwards	-	399	399	2,021	2,420
Other	57	(55)	2	84	86
	3,765	400	3,765	1,274	5,039

In addition to the above there is an unrecognised deferred tax asset of £Nil (2017: £2,890,000) which has not been recognised on the basis that future recovery is uncertain.

A reduction in the UK corporation tax rate from 19% to 18% (effective from 1 April 2020) was substantively enacted on 26 October 2016. This will reduce the company's future current tax charge and has been used in calculating the deferred tax asset at 31 March 2018.

18. Capital and reserves

	2018 No.	2017 No.	2018 £000	2017 £000
Allotted, called up and fully paid				
Ordinary shares of £0.01 each	150,000	150,000	2	2

19. Operating leases

Total future minimum lease payments under non-cancellable operating leases are as follows:

	2018 Land and buildings £000	Other £000	2017 Land and buildings £000	Other £000
Within one year	2,511	437	2,432	214
Between one and five years	10,363	695	10,023	165
After 5 years	11,888	1	14,450	-
	24,762	1,133	26,905	379

Notes *(continued)*

20. Commitments

Contracted commitments at the end of the financial period for which no provision has been made, are as follows:

	2018 £000	2017 £000
Capital - Plant and machinery	664	548
Commodities	30,613	13,658

21. Account estimates and judgements

Critical accounting judgements

There were no critical accounting judgements.

Key sources of estimation uncertainty

Customer deductions

The group is required to make estimates in determining the amount and timing of recognition of customer deductions due in respect of sales to its customers. In determining the amount of customer deductions due for volume related allowances in any period, the group estimates whether customers will meet purchase target volumes by the end of the arrangement, based on historical and forecast performance, and recognises this cost as a deduction from revenue over the period of the relevant arrangement. Where the deduction is related to uptake of in store promotions by end consumers, the group estimates the redemption rate based on historical performance, which is applied to sales to the customer during the promotional period, and recognises this cost over the period of the relevant promotion. Where the liabilities crystallise after the year-end but before signing of the financial statements, the liabilities are assessed on the actual amount charged for the period in question.

22. Related parties

Paul Monk is a director of the company's parent, the company trades with a number of companies where Paul Monk is also a director, and these are related parties as a consequence.

	2018 £000	2017 £000
Costs charged in the period by these companies	62	-
Balance owed at end of period	-	-

23. Ultimate parent company and parent company of larger group

The company is a subsidiary undertaking of Addo Food Group (Holdings) Ltd, which is the ultimate parent company.

The largest and smallest group in which the results of the company are consolidated is that headed by of Addo Food Group (Holdings) Ltd, Tottle Bakery, Dunsil Drive, Nottingham, NG2 1LU. The consolidated financial statements of this group are publically available and may be obtained from Addo Food Group (Holdings) Ltd, Tottle Bakery, Queens Drive, Nottingham, NG2 1LU.

24. Explanation of transition to FRS101 from FRS102

As stated in note 1, these are the company's first financial statements prepared in accordance with FRS 101.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the 53 weeks ended 31 March 2018, the comparative information presented in these financial statements for the 52 weeks ended 25 March 2017 and in the preparation of an opening balance sheet at 26 March 2016.

In preparing its FRS 101 balance sheet, no adjustments were required to amounts previously reported in financial statements prepared in accordance with its old basis of accounting (FRS 102).