

Mash Direct Limited

Report and Financial Statements

29 February 2020

Registered No. NI049100



Mash Direct Limited

Directors

M Hamilton
T Hamilton
P D Cooke (resigned 17/07/19)
L Hamilton
J Hamilton
G Armstrong
S Hill
J McCollum

Auditors

Ernst & Young LLP
Statutory Auditor
Bedford House
16 Bedford Street
Belfast
BT2 7DT

Bankers

HSBC
25-29 Royal Avenue
Belfast
BT1 1FB

Danske Bank
Donegall Square West
Belfast
BT1 6JS

Ulster Bank
11-16 Donegall Square East
Belfast
BT1 5UB

Solicitors

Joseph F. Mc Collum & Co.
52 Regent Street
Newtownards
Co. Down
BT23 4LP

Registered Office

Ballyrainey House
81 Ballyrainey Road
Comber
Newtownards
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BT23 5JU

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Strategic report

The directors present their strategic report for the year ended 29 February 2020.

Principal activities and review of the business

The principal activities of the Company during the year were those of the manufacture and distribution of mashed potato and other vegetables to the wholesale and retail markets.

The Company has continued to perform well in the current year.

The directors have determined that the following financial and non-financial Key Performance Indicators (KPI's) are the most effective at measuring the Company's objectives:

	2020 £	2019 £
Turnover	22,078,045	18,422,377
Gross profit	8,532,099	6,643,536
Profit before taxation (before exceptional item)	1,695,782	631,989
Net profit after tax (before exceptional item)	1,603,832	800,920
Net assets	3,603,091	2,447,943
EBITDA (excluding exceptional item)	2,994,215	1,962,509
British Retail Consortium Certification	AA+	AA+
Primary Produce Suppliers (No.)	73	79
Employee number (No.)	216	203

The Company's turnover increased by 19.8% in the year to 29 February 2020. This growth was achieved by driving sales through existing retail and industrial channels, by increasing exposure to consumers geographically and by generating turnover through sales of newly developed products. The Company remains on course to reach its future growth targets. The sustained investment in the marketing of the Company's brand has raised awareness of the Company's product portfolio away from its home market of Northern Ireland with 59.4% (2019: 56.2%) of the Company's sales now generated on the UK mainland.

Earnings before interest, tax, depreciation and amortisation is considered to give a strong indication of the Company's performance primarily because it provides both a measure of the Company's profitability and its ability to service its debt. This year's figure was £3.0m and 13.6% of sales. This was 2.9% higher than in the previous year.

The Company continued to focus on the quality of its manufacturing processes and procedures, and again was certified to the highest level by the British Retail Consortium.

The number of Primary Produce Suppliers and the number of Company employees not only gives an indication of the Company's growth but also the contribution the Company is making to its local community in terms of employment and the benefit to businesses operating in the same agricultural sector, both locally and nationally. The number of Primary Produce Suppliers partnering the business was 73 in 2020 (2019: 79). The number of individuals directly employed within the business has increased by 6.4% as a result of the increased level of turnover achieved in the year.

There were no changes to the ownership of the Company.

Strategic report (continued)

Principal risks and uncertainties

The Board of Directors convene monthly to review the Company's financial and operational performance, the effectiveness of its health and safety policies, strategic aims and the forthcoming challenges which the sustained growth and associated capital investment program presents. The effects of the Company's strategies on operational capacity, raw material supply, capital expenditure and cash flows, for example, are modelled and projected in annual forecasts and formal business plans. Variances against these forecasts are measured on a monthly basis to ensure their effects can be accurately estimated and reacted to. A series of management reports are also regularly prepared to inform senior management and the Company's lenders of trends in these important indicators.

Cash flow and Liquidity

The Company's ability to generate cash remains strong, which allows the Company to finance its working capital requirement and continued investments in its production facilities. Its customer portfolio remains extremely strong, with the majority of its business being with retail multiples from throughout the UK and Ireland. The Company's exposure to bad debt is regularly reviewed to determine whether insuring against the risk of bad debt is commercially beneficial. Due to the nature of the current portfolio, and the level of bad debts in recent years not exceeding 0.2% of total sales, this is not deemed to be necessary at present.

The capital investment program resulted in expenditure on fixed assets totalling £1.1m (2019 – £2.0m). The majority of investment made in the year related to plant and machinery installed in the company's recently built production facility. With uncertainty over the terms of Brexit and inflationary pressures driving costs upwards, the Company is focussed on increasing efficiencies within its processes. The results from this investment program will be an increase in output capacities and the ability to build on its current level of competitiveness within the industry in future periods.

The Company's liquidity improved compared with the prior year end. This was achieved by terming debt relating to large capital expenditure projects and reducing short-term debt. Liquidity will continue to be a focus of the company, especially in light of the possible effects of COVID-19 on the business and on that of its various partners.

COVID19

The business has recognised the risks posed by the current COVID19 pandemic, which may impact on customer profitability and sustainability via sales margins. The business has implemented various contingency measures and mitigating actions to address this threat. The company has appointed a crisis management team, which is implementing a coordinated business response and taking appropriate actions for the business based on government advice. The business has tested its supply chain resilience in the face of Coronavirus and does not believe there is any heightened risk for raw materials supplied, or in the manufacturing process.

The health and wellbeing of the company employees continues to be of paramount concern and all necessary arrangements are being put in place to ensure that the company premises remain a safe environment for staff. The company will keep the situation under daily review and will take all necessary measures to maintain the viability of the business during and after the situation is resolved.

Brexit

As with any UK business, Brexit presents a number of challenges. The business has access to global expertise to meet these such challenges. The business has put in place a Brexit Steering Committee which is committed on achieving a smooth transition from UK's withdrawal from the European Union. The business is focused on domestic markets which will help reduce any such impact.

Strategic report (continued)

Foreign currency

The level of business traded in foreign currencies was 9.2% of the Company's total turnover, and the Company constantly monitors market information to assess the risk of significant movements in the currency markets, at which point forward contracts are utilised to limit exposure.

Raw material prices

Raw material price volatility presents the greatest uncertainty in forecasting the Company's profits. The directors have progressively strengthened their focus in recent years on the Company's raw material purchasing strategy which will minimise the risk of adverse movements in the market. This strategy is becoming more important as the company's new products are increasingly innovative and incorporate more ingredients.

Research and development

A key strategic objective towards maintaining the Company's competitiveness and marketability is its focus on innovating new products and techniques. The Company has won a number of awards for the new products it has developed and they form an increasingly significant part of the Company's total turnover each year. The focus to innovate further to meet changing market trends and demands will continue to be an important driver towards achieving the Company's strategic goals.

Renewable energies

The Company has always focused on its contribution to the environment and has won a number of related awards in the past. A key strategic goal for the Company is to continue to become more sustainable as an organisation. A number of projects are on-going which all aim to utilise technologies which will eliminate waste from the Company's processes, generate sufficient renewable energy which can be used to power the production facility and significantly reduce the Company's carbon footprint.

On behalf of the Board



Martin Hamilton
Director

Date: 23/02/2021

Registered Number: NI049100

Directors' report

The directors present their report for the year ended 29 February 2020.

Results and dividends

The profit for the year after taxation amounted to £1,603,832 (2019 – profit of £191,177). The directors paid a final dividend of £448,684 (2019 – £123,680).

Going concern

The Company's balance sheet indicates an excess of current assets over current liabilities at the Balance Sheet date of £131,469 (2019: net current liabilities of £1,811,025). The company has successfully adopted a strategy to reduce reliance on short term debt levels by terming out short-term debt using structured, longer-term sources of finance. This is evidenced in the reduction in Bank Overdrafts observed in this financial year end as shown within note 15 of the financial statements.

The Company has a history of strong profitability and operating cash flow and expects this to continue. The Company's forecasts and projections, taking into account the changes in trading performance as a result of COVID19, show that the Company will be able to operate within the level of its current facilities. These forecasts and projections have been stress tested. Several sensitivities have been applied to the projections, with the Company still having sufficient headroom after these sensitivities are applied.

Despite the ongoing market challenges and consumer pressures arising from the Government restrictions imposed as a result of the COVID-19 pandemic the directors believe that the Company has adequate resources to continue in operational existence for a period of at least 12 months to 28 February 2022. Thus, it continues to adopt the going concern basis of accounting in preparing the financial statements.

Future developments

In order to ensure the capability to meet future customer demand in the medium term, the Company has continued to equip its recently extended industrial kitchen facility. The installation of plant and equipment will continue as demand from the Company's customers grow.

The result of the EU Referendum held in the UK in June 2016 means that the economic landscape in which the Company operates is expected to change. The extent of the impact of "Brexit" on the Company is not totally clear at present. However, strategies to successfully prepare for and adapt to the various scenarios which the Board of Directors can possibly foresee are discussed at each monthly meeting. Due to the recent trade deal brokered between the UK and EU there will be no tariffs on the majority of the Company's trade, with little to no change in documentation required for the Company's main trading route between NI and mainland UK. As a result, the Company is well positioned to cope with the implications of "Brexit".

Events since the balance sheet date

COVID-19 was declared a global pandemic in March 2020 and hence is deemed a post balance sheet event. The Company reacted quickly by investing in health and safety measures and changing working patterns to accommodate social distancing within the manufacturing plant. As such, the impact on business operations has been minimal, with a small number of staff being placed on furlough during the initial lockdown period in March through May 2020. The overall impact for the company has been positive, arising from an increase in product demand resulting in an increase in retail sales, offsetting the reduction in foodservice sales following the lockdown periods imposed by Government. The business has continued to see similar trends through to the date of approval of the financial statements. Due to the uncertainty regarding the longer term societal and sector impact of COVID-19 the directors are unable to quantify the impact on the company.

As this is a post balance sheet event, its impact has not been reflected in these financial statements.

Directors' report (continued)

Engagement with suppliers, customers and others (continued)

The Company is dependent on the quality of service from a range of providers for the supply of raw materials to our farm and processing site. Any interruption to this supply would lead to delays in production for our customers. In addition, the Company could be at risk from unethical behaviour by our suppliers and customers which could reflect on our brand and products. The Company has robust traceability systems in place and works closely with our suppliers and customers to ensure adherence to the Company's high standards.

Research and development

During the year, the Company continued to research and develop new products and new production processes. In the process, research and development expenditure amounting to £915,266 (2019 – £771,004) was incurred.

Directors

The directors who served the Company during the year were as follows:

M Hamilton
T Hamilton
P D. Cooke (resigned 17/07/19)
L Hamilton
J Hamilton
G Armstrong
S Hill
J McCollum

Political and charitable contributions

During the year the Company made charitable donations of £5,208 (2019 – £1,944). The Company did not make any political donations in the current year (2019 – £nil).

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

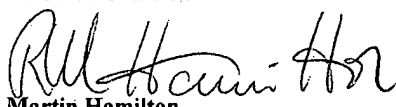
Matters included in the Strategic Report

Under section 414 of Companies Act 2006 all matters not disclosed in the Directors' Report have been included in the Strategic Report.

Auditors

In accordance with s.485 of the Companies Act 2006, a resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board



Martin Hamilton

Director

Date: 23/02/2021

Directors' Responsibilities Statement

The directors are responsible for preparing the 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, including FRS 102 *'The Financial Reporting Standard applicable in the UK and Republic of Ireland'* (United Kingdom Accounting Standards and applicable law). 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 judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping 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.

Independent auditors' report

to the members of Mash Direct Limited

Opinion

We have audited the financial statements of Mash Direct Limited ('the company') for the year ended 29 February 2020 which comprise the Statement of Comprehensive income, the Statement of changes in equity, the Balance sheet, the Statement of cash flows and the related notes 1 to 23, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 29 February 2020 and of the company's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Independent auditors' report (continued)

to the members of Mash Direct Limited

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent auditors' report (continued)

to the members of Mash Direct Limited

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Ernst & Young LLP

Lindsay Russell (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Belfast

Date: 24/02/21

Statement of comprehensive income

for the year ended 29 February 2020

	Notes	2020 £	2019 £
Turnover	2	22,078,045	18,422,377
Cost of sales		<u>(13,545,946)</u>	<u>(11,778,841)</u>
Gross profit		8,532,099	6,643,536
Selling and distribution costs		(4,496,792)	(3,975,133)
Administrative expenses		(2,253,684)	(1,957,057)
Exceptional item – Obsolete US stock	3	-	(609,743)
Other operating income	4	<u>93,914</u>	<u>150,449</u>
Operating profit	5	1,875,537	252,052
Interest payable and similar charges	9	<u>(179,755)</u>	<u>(229,806)</u>
Profit before taxation		1,695,782	22,246
Tax (charge) / credit	10	<u>(91,950)</u>	<u>168,931</u>
Profit for the financial year		<u>1,603,832</u>	<u>191,177</u>
Other comprehensive income		-	-
Total comprehensive income for the year		<u>1,603,832</u>	<u>191,177</u>

All amounts relate to continuing operations.

Statement of changes in equity

for the year ended 29 February 2020

	<i>Share capital</i>	<i>Profit and loss account</i>	<i>Total share-holders' funds</i>
	£	£	£
At 1 March 2018	72,000	2,308,446	2,380,446
Total comprehensive income for the year	-	191,177	191,177
Dividends paid (note 11)	-	(123,680)	(123,680)
At 1 March 2019	72,000	2,375,943	2,447,943
Total comprehensive income for the year	-	1,603,832	1,603,832
Dividends paid (note 11)	-	(448,684)	(448,684)
At 29 February 2020	72,000	3,531,091	3,603,091

Called up share capital

Share capital represents the nominal value of shares that have been issued.

Profit and loss account

Profit and loss account includes all current and prior period retained profits and losses.

Mash Direct Limited

Registered Number: NI049100

Balance sheet

at 29 February 2020

	Notes	2020 £	2019 £
Fixed assets			
Tangible assets	12	6,548,826	6,592,302
Current assets			
Stocks	13	748,472	879,448
Debtors	14	7,188,133	6,312,411
Cash at bank and in hand		8,042	515,475
		7,944,647	7,707,334
Creditors: amounts falling due within one year	15	(7,813,178)	(9,518,359)
Net current assets / (liabilities)		131,469	(1,811,025)
Total assets less current liabilities		6,680,295	4,781,277
Creditors: amounts falling due after more than one year	16	(3,014,125)	(2,236,571)
Provisions for liabilities and charges			
Deferred taxation	10(c)	(63,079)	(96,763)
Net assets		3,603,091	2,447,943
Capital and reserves			
Called up share capital	20	72,000	72,000
Profit and loss account		3,531,091	2,375,943
Shareholders' funds		3,603,091	2,447,943

These financial statements were approved by the Board of Directors and signed on its behalf by:



Martin Hamilton

Director

Date 23/02/2021

Statement of cash flows

for the year ended 29 February 2020

	Notes	2020 £	2019 £
Net cash inflow from operating activities	21	<u>1,820,788</u>	<u>1,185,346</u>
Investing activities			
Purchase of tangible fixed assets	12	(1,085,767)	(1,883,790)
Sale of tangible fixed assets		16,700	11,988
Net cash outflow from investing activities		<u>(1,069,067)</u>	<u>(1,871,802)</u>
Financing			
Bank loans repayments		(2,282,523)	(398,544)
Bank interest paid	9	(150,928)	(210,413)
HP interest paid	9	(28,827)	(19,393)
Equity dividends paid	11	(448,684)	(123,680)
New long-term loans		2,345,000	2,155,242
New hire purchase obligations		1,293,929	102,743
Repayment of principal under hire purchase and finance lease agreements		<u>(324,454)</u>	<u>(196,282)</u>
Net cash inflow from financing activities		<u>403,513</u>	<u>1,309,673</u>
Increase in cash and cash equivalents		1,155,234	623,217
Cash and cash equivalents at 1 March 2019		<u>(4,399,800)</u>	<u>(5,023,017)</u>
Cash and cash equivalents at 29 February 2020		<u>(3,244,566)</u>	<u>(4,399,800)</u>

Notes to the financial statements

at 29 February 2020

1. Accounting policies

Statement of compliance

Mash Direct Limited is a private company limited by shares and incorporated in Northern Ireland. The registered office is located at 81 Ballyrainey Road, Comber, County Down, BT23 5JU.

The Company's financial statements have been prepared in compliance with the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as it applies to the Company for the year ended 29 February 2020.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards. The financial statements are prepared in Sterling (£) which is the functional currency of the Company. No rounding has been applied.

Going concern

The Company's balance sheet indicates an excess of current assets over current liabilities at the Balance Sheet date of £131,469 (2019: net current liabilities of £1,811,025). The company has successfully adopted a strategy to reduce reliance on short term debt levels by terming out short-term debt using structured, longer-term sources of finance. This is evidenced in the reduction in Bank Overdrafts observed in this financial year end as shown within note 15 of the financial statements.

The Company has a history of strong profitability and operating cash flow and expects this to continue. The Company's forecasts and projections, taking into account the changes in trading performance as a result of COVID19, show that the Company will be able to operate within the level of its current facilities. These forecasts and projections have been stress tested. Several sensitivities have been applied to the projections, with the Company still having sufficient headroom after these sensitivities are applied.

Despite the ongoing market challenges and consumer pressures arising from the Government restrictions imposed as a result of the COVID-19 pandemic the directors believe that the Company has adequate resources to continue in operational existence for a period of at least 12 months to 28 February 2022. Thus, it continues to adopt the going concern basis of accounting in preparing the financial statements.

Judgements and key sources 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 period. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant impact on amounts recognised in the financial statements.

The following are the Company's key sources of estimation uncertainty and judgement:

Taxation

The Company establishes provisions based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience with previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Notes to the financial statements (continued)

at 29 February 2020

1. Accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended. Depreciation is provided on all tangible fixed assets, at rates calculated to write off cost, of each asset on a systematic basis over its expected useful life as follows:

Land	–	not depreciated
Freehold Property	–	25 years
Plant and machinery	–	8 to 10 years
Fixtures and fittings	–	4 to 5 years
Motor vehicles	–	5 years

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

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity date of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Foreign currencies

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

The Company uses a combination of forward contracts and spot deals to hedge against foreign exchange exposures arising on forecast receipts and payments in foreign currencies.

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for any obsolete or slow-moving items. Cost includes all costs incurred in bringing each product to its present location and condition as follows:

Raw materials, consumables and goods for resale	–	purchase cost on a first-in, first-out basis.
Work in progress and finished goods	–	cost of direct materials and labour plus attributable overheads based on a normal level of activity.
Net realisable value	–	based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Short term debtors and creditors

Debtors and creditors with no stated interest rate and which are receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the profit and loss account in other operating expenses.

Dividends

Dividend distributions to the Company's shareholders are recognised in the financial statements in the period in which the dividends were paid.

Notes to the financial statements (continued)

at 29 February 2020

1. Accounting policies (continued)

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of the lease term and the assets useful lives. A corresponding liability is recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments in the balance sheet. Lease payments are apportioned between the reduction of the lease liability and the finance charges in the profit and loss account so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals under operating leases are charged to income on a straight-line basis over the lease term. Lease incentives are recognised over the lease term on a straight-line basis.

Government grants

Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment.

Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments.

Research and development

Research and development expenditure is written off to the profit and loss account in the year in which it is incurred.

Revenue recognition

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

Sale of goods

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

Current taxation

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the country where the Company operates and generates income.

Deferred taxation

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that:

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

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

Notes to the financial statements (continued)

at 29 February 2020

1. Accounting policies (continued)

Pensions

The Company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Company. The annual contributions payable are charged to the profit and loss account.

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 debtors and cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at present value of the future receipts discounted at a market rate of interest.

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

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 statement of comprehensive income.

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 the statement of comprehensive income.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) 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, bank overdrafts and loans 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 payments 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 received in the ordinary course of business from suppliers. Trade payables are classified into amounts falling due within one year if payment is due within one year or less. If not, they are presented as amounts falling due after one year. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

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

2. Revenue

The directors consider that to disclose a geographical analysis of turnover would be seriously prejudicial to the Company's interests.

All revenue relates to sale of goods.

Notes to the financial statements (continued)

at 29 February 2020

3. Exceptional item

	2020	2019
	£	£
Obsolete US stock	-	609,743

In 2019, £609,743 of stock allocated for sale in the US export market became obsolete as a result of a major retail customer postponing the launch of the listing of the Company's product.

4. Other operating income

	2020	2019
	£	£
Grant income receivable	80,859	139,696
Profit on sale of fixed assets	6,136	625
Other income	6,919	10,128
	<u>93,914</u>	<u>150,449</u>

5. Operating profit

This is stated after charging:

	2020	2019
	£	£
Auditors' remuneration	-	-
- audit fees (note 6)	12,200	12,200
- taxation services (note 6)	2,750	2,750
Depreciation of tangible fixed assets	-	-
- owned by the Company	776,084	1,022,539
- financed	342,594	78,175
Management charge from related undertaking	208,000	104,000
Research and development expenditure	915,266	771,004
Net foreign exchange (gain)/loss	<u>15,472</u>	<u>(2,742)</u>

6. Auditors' remuneration

	2020	2019
	£	£
Audit of the financial statements	12,200	12,200
Other fees to auditors	-	-
- compliance tax services	2,750	2,750
- research and development tax services	36,723	23,232
	<u>51,673</u>	<u>38,182</u>

Notes to the financial statements (continued)

at 29 February 2020

7. Directors' remuneration

	2020	2019
	£	£
Aggregate remuneration	184,110	170,099
Aggregate value of company contributions paid to a pension scheme	20,205	23,117

The number of directors accruing benefits under a defined contribution scheme is 5 (2019: 4).

8. Staff costs

	2020	2019
	£	£
Wages and salaries	4,231,628	3,766,404
Pension costs	100,279	63,524
Social security costs	329,640	297,535
	<u>4,661,547</u>	<u>4,127,463</u>

The average monthly number of employees during the year was made up as follows:

	2020	2019
	No.	No.
Production	174	163
Sales and distribution	26	25
Administration	16	15
	<u>216</u>	<u>203</u>

9. Interest payable and similar charges

	2020	2019
	£	£
Bank loans and overdraft	150,928	210,413
On hire purchase contracts	28,827	19,393
	<u>179,755</u>	<u>229,806</u>

Notes to the financial statements (continued)

at 29 February 2020

10. Tax

(a) Tax on profit

The tax charge / (credit) is made up as follows:

	2020 £	2019 £
Current tax:		
UK corporation tax on profits for the year	-	(127,334)
Adjustment in respect of previous periods	125,634	(52,473)
Total current tax (note 10(b))	125,634	(179,807)
Deferred tax:		
Origination and reversal of timing differences	144,189	12,194
Adjustments in respect of previous periods	(177,873)	(1,318)
Total deferred tax (note 10(c))	(33,684)	10,876
Tax charge / (credit) on profit	91,950	(168,931)

(b) Factors affecting total tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19.0% (2019 – 19.0%). The differences are explained below:

	2020 £	2019 £
Profit before tax	1,695,782	22,246
Profit multiplied by standard rate of corporation tax in the UK of 19.0% (2019 – 19.0%)	322,199	4,227
Effects of:		
Expenses not deductible for tax purposes	39,940	31,424
Release of capital grant	(10,986)	(10,986)
Research and development spend	(190,000)	(177,888)
Adjustments in respect of previous periods	(52,239)	(53,791)
Rate change between CT and DT	(16,964)	38,083
Total tax for the year (note 10(a))	91,950	(168,931)

(c) Deferred tax liability

The deferred tax charge is comprised as follows:

	2020 £	2019 £
Accelerated capital allowances	193,259	96,763
Other STTD	(323)	-
Losses	(129,856)	-
	63,080	96,763

Notes to the financial statements (continued)

at 29 February 2020

10. Tax (continued)

The movements on the deferred tax liability during the year are as follows:

	£
At 1 March 2019	96,764
Tax charge in the year (note 10(a))	(33,684)
At 29 February 2020	<u>63,080</u>

d) Factors that may affect future tax charges

The UK main rate of corporation tax is expected to remain at 19% following an announcement made on 17 March 2020. Deferred tax has been calculated at 17% as this was the rate substantively enacted at the balance sheet date, the impact of the increase in the tax rate to the closing deferred tax liability would be an increase in the liability of £7,421.

11. Dividends paid

	2020	2019
	£	£
Dividend paid on ordinary shares at £6.232 (2019: £1.718)	<u>448,684</u>	<u>123,680</u>

Dividends paid in the year have increased by £4.514 per share when compared to 2019. This increase primarily reflects the action taken in the prior year to significantly reduce dividends paid to shareholders when the company experienced exceptional stock write-offs.

Notes to the financial statements (continued)

at 29 February 2020

12. Tangible fixed assets

	<i>Freehold property £</i>	<i>Plant and machinery £</i>	<i>Fixtures and fittings £</i>	<i>Motor vehicles £</i>	<i>Total £</i>
<i>Cost:</i>					
At 1 March 2019	3,262,124	10,707,446	393,798	768,608	15,131,976
Additions	217,085	768,840	41,072	58,770	1,085,767
Disposals	-	(22,500)	-	(11,960)	(34,460)
At 29 February 2020	3,479,209	11,453,786	434,870	815,418	16,183,283
<i>Depreciation:</i>					
At 1 March 2019	674,997	6,935,702	325,246	603,729	8,539,674
Charge for the year	131,318	895,775	29,785	61,800	1,118,678
Disposals	-	(22,500)	-	(1,395)	(23,895)
At 29 February 2020	806,315	7,808,977	355,031	664,134	9,634,457
<i>Net book value:</i>					
At 29 February 2020	2,672,894	3,644,809	79,839	151,284	6,548,826
At 1 March 2019	2,587,127	3,771,744	68,552	164,879	6,592,302

Included above are plant and machinery and motor vehicles held under hire purchase contracts as follows:

	2020		2019	
Asset description	Depreciation charge £	NBV £	Depreciation charge £	NBV £
Plant and machinery	477,436	1,338,774	65,645	385,874
Motor vehicles	30,632	43,978	12,530	45,943
	<u>508,068</u>	<u>1,382,752</u>	<u>78,175</u>	<u>431,817</u>

Notes to the financial statements (continued)

at 29 February 2020

13. Stocks

	2020	2019
	£	£
Stock – raw materials	281,049	509,420
– packaging	218,784	147,463
Finished goods	248,639	222,565
	<u>748,472</u>	<u>879,448</u>

14. Debtors

	2020	2019
	£	£
Trade debtors	3,363,656	3,110,218
Amounts owed by related undertakings	3,615,399	2,775,712
Current corporation tax	-	197,527
Accrued income	5,843	-
Prepayments and other debtors	203,235	228,954
	<u>7,188,133</u>	<u>6,312,411</u>

15. Creditors: amounts falling due within one year

	2020	2019
	£	£
Bank overdrafts	3,252,608	4,915,275
Bank loans (note 17)	292,121	347,243
Trade creditors	3,236,459	3,702,244
Hire purchase contracts	342,593	90,898
Other taxes and social security costs	156,189	130,317
Other creditors	106,958	74,029
Government grant income deferred	57,823	49,866
Accruals	368,427	208,487
	<u>7,813,178</u>	<u>9,518,359</u>

The bank loans and overdraft facilities are secured by way of a fixed and floating charge over the tangible and current assets of the Company. In addition, a composite company unlimited multilateral guarantee is given by the Company and MH Farms Ltd.

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

	2020	2019
	£	£
Bank loans (note 17)	1,857,828	1,740,230
Hire purchase contracts	875,452	157,673
Government grants income deferred	280,845	338,668
	<u>3,014,125</u>	<u>2,236,571</u>

Notes to the financial statements (continued)

at 29 February 2020

17. Bank loans

	2020	2019
	£	£
<i>Maturity of debt:</i>		
Wholly repayable within five years	1,403,669	1,102,318
Not wholly repayable within five years	746,280	985,155
	<u>2,149,949</u>	<u>2,087,473</u>

There are three bank loans in place, two with a floating rate of interest of 2.67% both with a 5 year term, and the third bank loan has a floating interest rate of 2.67% with a 9.5 year term. In March 2019, the Company moved its primary banking facilities from Danske Bank to HSBC.

18. Hire purchase contracts

	2020	2019
	£	£
<i>Future minimum rentals payable under non-cancellable operating leases payable for each of the following periods:</i>		
Less than one year	342,593	90,898
Between one and five years	875,452	157,673
Later than five years	-	-
	<u>1,218,045</u>	<u>248,571</u>

19. Financial instruments

	2020	2019
	£	£
<i>Financial assets:</i>		
Financial assets measured at amortised cost to include cash in hand, trade debtors and amounts owed by related undertakings	6,987,097	6,401,405
	<u>6,987,097</u>	<u>6,401,405</u>
<i>Financial liabilities:</i>		
Financial liabilities measured at amortised cost	10,332,446	10,953,563
Financial liabilities measured at fair value	-	-
	<u>10,332,446</u>	<u>10,953,563</u>

20. Issued share capital

	2020		2019	
<i>Allotted, called up and fully paid</i>	No.	£	No.	£
Ordinary shares of £1 each	72,000	<u>72,000</u>	72,000	<u>72,000</u>

Notes to the financial statements (continued)

at 29 February 2020

21. Notes to the statement of cash flows

Reconciliation of operating profit to net cash inflow from operating activities

	2020	2019
	£	£
Operating profit	1,875,537	252,052
Depreciation charge	1,118,678	1,100,714
Release of grant income	(49,867)	(57,824)
Profit/(loss) on disposal of fixed assets	(6,136)	(625)
Deferred income	-	(7,959)
Increase in debtors	(1,073,249)	(1,024,865)
(Decrease) / Increase in creditors	(247,044)	714,274
Decrease in stocks	130,976	209,579
<i>Taxation</i>		
Corporation tax received	71,893	-
Net cash inflow from operating activities	<u>1,820,788</u>	<u>1,185,346</u>

Cash and cash equivalents

	At 29 February 2020	At 28 February 2019
	£	£
Cash at bank and in hand	8,042	515,475
	<u>8,042</u>	<u>515,475</u>
Bank loans and overdrafts	(3,252,608)	(4,915,275)
Cash and cash equivalents	<u>(3,244,566)</u>	<u>(4,399,800)</u>

Analysis of changes in net debt

	At 1 March 2019	Cash flows	At 29 February 2020
	£	£	£
Cash and cash equivalents	515,475	(507,433)	8,042
Overdrafts and Other Accounts	(4,915,275)	1,662,667	(3,252,608)
Bank Loans	(2,087,473)	(62,476)	(2,149,949)
Hire purchase contracts	(248,571)	(969,474)	(1,218,045)
Net debt	<u>(6,735,844)</u>	<u>123,284</u>	<u>(6,612,560)</u>

Notes to the financial statements (continued)

at 29 February 2020

22. Related party transactions

Key management compensation is given in note 7.

The directors are related parties of the Company as defined by FRS 102 Section 33 *Related Party Disclosures* paragraph 33.11.

The Company was under the control of Mr M Hamilton and his wife Mrs T Hamilton throughout the current and previous years.

Mr M Hamilton is the shareholder and director of Mash Direct Inc., and Mr M Hamilton and Mrs T Hamilton are the shareholders of MH Farms Limited. This is the company formed on incorporation of MH Farms, which was previously beneficially owned by Mr M Hamilton and Mrs T Hamilton.

During the year the Company purchased £1,857,350 (2019 – £1,491,413) of vegetables from MH Farms.

During the year the Company incurred a management charge of £208,000 (2019 – £104,000) from MH Farms Limited.

The amount due from MH Farms Limited relating to cash amounts advanced in the year of £839,687 (2019: £743,808) results in the total amount owed from MH Farms Limited to Mash Direct at the year-end of £3,615,399 (2019: £2,775,712). This balance is in relation to future supplies of raw materials and purchases made from MH Farms Limited and has been included within the debtors account above.

23. Events after the reporting period

COVID-19 was declared a global pandemic in March 2020 and hence is deemed a post balance sheet event. The Company reacted quickly by investing in health and safety measures and changing working patterns to accommodate social distancing within the manufacturing plant. As such, the impact on business operations has been minimal, with a small number of staff being placed on furlough during the initial lockdown period in March through May 2020. The overall impact for the company has been positive, arising from an increase in product demand resulting in an increase in retail sales, offsetting the reduction in foodservice sales following the lockdown periods imposed by Government. The business has continued to see similar trends through to the date of approval of the financial statements. Due to the uncertainty regarding the longer term societal and sector impact of COVID-19 the directors are unable to quantify the impact on the company.

As this is a post balance sheet event, its impact has not been reflected in these financial statements.