

Baxters Food Group Limited

Annual Report

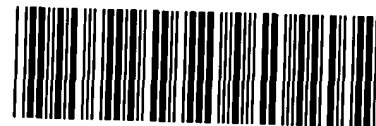
For the period ended 31 March 2018

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BAXTERS FOOD GROUP LIMITED

DIRECTORS AND ADVISERS

Executive Chairman	Audrey C Baxter DBA
Directors	Andrew G Baxter BSc Ronald Davis Michael S McGill
Secretary	Lucy J Strachan
Company number	SC023572
Registered office	12 Charlotte Square Edinburgh EH2 4DJ
Registered auditor	Johnston Carmichael LLP Bishop's Court 29 Albyn Place Aberdeen AB10 1YL

BAXTERS FOOD GROUP LIMITED

CONTENTS

CHAIRMAN'S STATEMENT	1
STRATEGIC REPORT	3
DIRECTORS' REPORT	4
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BAXTERS FOOD GROUP LIMITED	6
CONSOLIDATED INCOME STATEMENT	9
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	10
BALANCE SHEETS	11
STATEMENTS OF CHANGES IN EQUITY	12
CASH FLOW STATEMENTS	13
PROFORMA BALANCE SHEETS	14
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	16

BAXTERS FOOD GROUP LIMITED

CHAIRMAN'S STATEMENT FOR THE PERIOD ENDED 31 MARCH 2018

Business review and future developments

It gives me pleasure to present the financial statements for Baxters Food Group Limited ("the Company") and its subsidiaries (collectively the "Group") for the period ended 31 March 2018. Headquartered in Edinburgh, Scotland, the Group is a global business and these financial statements demonstrate the benefits of a balanced but internationally diversified Group in evolving markets.

For the period ending 31 March 2018, the financial statements show Group pre-exceptional revenue increased 14% to £338.3m (2017: £296.7m) and gross profit before exceptional items rose by 10% to £109.3m (2017: £99.7m). The performance reflects the fruition of the investment and turnaround program developed and implemented in Canada over recent years, the benefit of emergency relief work undertaken in the USA following the severe hurricanes encountered in 2017 and a stable performance from the European business. EBITDA before exceptional items was 15% higher at £34.3m (2017: £29.8m) with costs closely controlled to ensure that the benefit of increased activity levels was converted into profit.

The North American expansion of recent years has continued to have a positive impact on the Group's financial results. Revenue, EBITDA and operating profit have all increased from the historic investment and turnaround of Canada, core growth in the USA and the emergency relief work. The provision of almost 9 million units of emergency meals by the Group's USA business over a concentrated period of 3 months represented only a small proportion of FEMA's requirements but a massive operational undertaking. While this level of emergency relief work was unprecedented, there remains a recurring annual requirement which necessitates a state of preparedness on a seasonal basis.

Core growth in the USA has focused on the development of a Store Brand portfolio for retailers with contract wins during the period. *Military and Contract Manufacturing work provides the platform which has underpinned this strategy.* The USA market for Store Brands is growing rapidly. Our customers and Store Brand management team have been on a steep learning curve, drawing on the experience of our UK management team where possible. USA revenues for the period were US\$259.2m (2017: US\$207.7m) and now contribute approximately 60% of the Group's total revenue.

In Europe, consumers continue to look for products based on perceived quality, health and convenience. During the period we launched an enhanced Hearty range, new livery for our core soup products and the Super Good range. Our new recipes focus on the importance of a healthy lifestyle and include key ingredients with health benefits. We have redesigned our beetroot products together with condiments and are currently working on new product development for this area. The European market continues to evolve with continued changes in customers and consumers alike. *After an absence of a few years, we are excited to be back on television during winter 2018/19 with the launch of our "We make Super" marketing campaign and look forward to the benefits of this in the current financial period.*

Private Label products in Europe demonstrated some growth, primarily due to the annualisation of contract wins secured in the comparative period. This revenue stream remains an opportunity but given the ongoing changes in customer and consumer behaviour, it requires a careful balance against our core branded business in Europe and a selective approach to both products and categories. In the European Retail business, we concentrated our Retail business to the Highland Village in Fochabers, the traditional home of Baxters, at the end of 2018 and subsequently refurbished the site. This is already seeing the benefits of the modest investment. Overall, European revenues for the period were £89.4m (2017: £90.3m) reflecting a creditable performance in this evolving and competitive market.

Our Australian business has experienced a challenging period as it consolidated into one site from two and secured a significant new contract manufacturing relationship. The new contract increased revenues to A\$27.0m in the period from A\$22.6m in the prior period but the contract addition proved to be onerous and unprofitable, causing significant disruption to the existing business and operations. This was exacerbated by the site move and, as a result, customer service levels were adversely impacted and customer losses materialised.

We have subsequently changed our management team and renegotiated the contract manufacturing arrangements. It will take time to recover the lost business but the new team has re-established service levels and is now looking to capitalise on the available market opportunity in branded and Private Label from a solid foundation.

Our Canadian operations delivered significant profitable growth following the capital expenditure and re-shaping undertaken in recent years. Revenue was C\$65.1m (2017: C\$61.2m) reflecting sales growth of 6% and was coupled with strong EBITDA growth. On the basis of an anticipated improvement in financial performance, and the Group's strategic desire to focus more on the European, USA and Australian businesses, a decision was made to market the Canadian business for sale during the period ended 31 March 2018. As part of this, and in order to optimise overall sale proceeds on the disposal of the business, the premises on which the Canadian offices and manufacturing plant were situated were first sold and leased back. This transaction completed in September 2017, generating C\$6.5m and resulting in a gain on sale of C\$0.9m (£0.6m). After a competitive process, the sale of the Canadian business was subsequently completed after the period end, on 18 May 2018 at a gross price of C\$73.3m, including retained cash. This represented a gain on sale of C\$12.9m (£7.3m).

BAXTERS FOOD GROUP LIMITED

CHAIRMAN'S STATEMENT (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

Business review and future developments (continued)

In order to enable users of these financial statements to understand the impact of the transaction on the Group balance sheet and application of the proceeds realised, a proforma Group balance sheet has been included on pages 14 and 15 to show the impact of the transaction on the Group as if it had happened on 31 March 2018.

During the period there were a number of non-recurring items of a material nature in each of the businesses. In Europe, operations were further streamlined through the continuation of an exercise focused on organisation simplification which reduced headcount and cost £0.3m. A decision to exit our Kelty Retail site by exercising a lease break option was taken during the period ended 1 April 2017. An update of £0.3m was therefore made to the estimate of closure and lease termination costs in the financial statements for the period ended 31 March 2018.

In the US, obsolete stock write-offs were incurred on the start-up of Private Label product development with Walmart. This reflects the steep learning curve in respect of Private Label in the USA with optimistic customer sales not materialising and certain product lines subsequently mothballed. In Canada, a £0.5m gain was recognised on the sale and leaseback of the property which was partially offset by an impairment on an item of plant and equipment in advance of the sale transaction (C\$1.8m £1.1m). In Australia, the relocation into one production site and significant onerous new manufacturing contract resulted in significant one-off costs amounting to £4.2m and a review of the carrying value of goodwill resulted in an impairment of £1.1m. These projects have seen the Group absorb a total of £7.8m of exceptional costs.

At the end of March 2018, the Group's defined benefit pension scheme liability was prudently assessed at £16.2m (2017: £16.2m). Consistent with the period ended 1 April 2017, the Scheme absorbed a disproportionate amount of time, energy and effort from senior management.

Given the sustained period of low interest rates, the Scheme deficit represents a significant liability to the Group. What was once a major factor in employee recruitment, retention and motivation is now a financial, regulatory, legislative and administrative burden. As many corporates have now recognised, defined benefit pension arrangements are simply not sustainable. Importantly, the Group remains absolutely committed to the resolution of the Scheme over the medium to long-term. Circumstances have compelled the Group to adopt a more active management approach, including the closure of the Scheme to future accrual before the end of the financial period, removal of potentially conflicted Trustees and introduction of independent Trustees with expertise in this increasingly specialised area.

At the time of writing this Chairman's Statement, the direction and outcome of Brexit remain entirely uncertain. There is little question that a smoother and longer glide path to transition from EU membership to exit would be both sensible and logical. This, however, remains by no means certain at all. For our Group, and similar to other food manufacturers, this may require us to build raw material stock resources in advance of 30 March 2019. Unfortunately, the related purchasing decisions may require to be made before the final path for Brexit is eventually determined. Commitment of significant sums of money to purchasing materials that may ultimately prove to be unnecessary is not an efficient use of the Group's capital resources but nonetheless essential.

On a personal note, I wish to thank the Group's employees for their dedication and loyalty to our business. Despite the various challenges, demands and economic highs and lows, they remain committed to delivering for the Group and stakeholders. The Board appreciate this hugely.

Lastly, a year after moving into our new corporate head office in Edinburgh, there is little doubt that this has enhanced the profile of the Group and broadened the pool of recruitment talent available. This should stand the Group in good stead as our Group develops further internationally, through a combination of organic growth and investment.



Audrey C Baxter DBA
Executive Chairman

14 December 2018

BAXTERS FOOD GROUP LIMITED

STRATEGIC REPORT FOR THE PERIOD ENDED 31 MARCH 2018

The directors present their Strategic Report, Directors' Report and financial statements for the period ended 31 March 2018.

Principal activities

The Company is a private company headquartered in Edinburgh, Scotland. The Group and Company, are manufacturers of high-quality ambient food, supplying retail, food manufacturers and foodservice customers in the UK market and key overseas markets. High quality foods such as soups, canned meat products, sour pickles, sauces, vinegars, anti-pasti, preserves, salad and meat accompaniments are sold under a variety of brands owned by, or licensed to, the Group.

This family company has an ethos of creativity, innovation and integrity which lies at the heart of all its operations.

Review of the business and future developments

Full details of the Group's performance in the period and future developments can be found in the Chairman's statement on pages 1 and 2.

Key performance indicators

The Group makes use of Key Performance Indicators (KPIs) involving financial and non-financial measures. The non-financial KPIs cover areas such as Customer Service, Operational Performance and Health and Safety. The individual business units each set their own KPIs which contribute towards the Group indicators. Customer service KPIs look to resolve all complaints and reduce the number of complaints received. Operational performance KPIs are focused on achieving throughputs and deliveries based on each line, with thresholds differing within each process and each business unit. The throughputs are monitored through the standard costing process in each business unit. Health and Safety KPIs include monitoring the number of incidents and accidents.

The principal financial performance KPIs are Revenue, Gross Profit as a percentage of Revenue, EBITDA, Operating Profit as a percentage of Revenue and Net Assets. The Group has increased revenue before exceptional items by 14% to £338.3m (2017: £296.7m). The increase in revenue is mainly attributable to the turnaround in Canada and the benefit of emergency relief work undertaken in the USA following the hurricanes.

Gross profit before exceptional items has increased by 10% to £109.3m (2017: £99.7m). The gross profit before exceptional items as a percentage of turnover decreased by 2% to 32% (2017: 34%), ranging from 20% to 35% across the Group's subsidiaries reflecting the mix of branded and Private Label business undertaken. EBITDA before exceptional items has increased by 15% to £34.3m (2017: £29.8m). The Group's operating profit before exceptional items increased by 24% to £24.1m (2017: £19.4m). The Group's net assets have increased by 4% to £78.1m (2017: £75.1m).

Principal risks and uncertainties

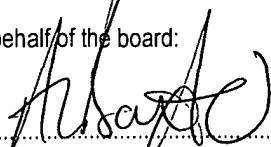
The directors have assessed the main financial risks for the Group to include the following:

- Foreign currency exchange risk: the risk of financial loss to foreign currency net assets, earnings and cash flows reported in pounds sterling due to movement in exchange rates. The denomination of debt in pounds sterling and foreign currencies has been undertaken in a manner that broadly matches the income generating proportions in the Group and is continually under review as the business changes. Further information on the Group's management of foreign currency exchange risk is provided in note 23.
- Credit risk: the risk of financial loss to the Group if a customer or counterpart to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash and cash equivalents. The risk is managed by contracting with blue chip customers. Further information on the Group's management of credit risk is provided in note 23.
- Changing retail market and consumer trends: the challenging retail market and constantly changing consumer trends requires each business unit to develop and change according to the needs of their market. Each business unit has a different mix between Baxters Branded, Customer Own Brand and Contract Manufacturing business which overall provides a balanced portfolio across the Group.

Dividends

The directors have proposed a final dividend in respect of the period ended 31 March 2018 amounting to £nil (2017: £nil). In accordance with IAS 10 "Events after the Reporting Date", any proposed dividend would not be accrued in the financial statements.

On behalf of the board:



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Audrey C Baxter DBA

Executive Chairman

16 December 2018

BAXTERS FOOD GROUP LIMITED

DIRECTORS' REPORT FOR THE PERIOD ENDED 31 MARCH 2018

The directors have reported the results for the period as part of the Chairman's Statement.

Directors

The following directors have held office since 2 April 2017 and up to the date of this report unless otherwise stated:

Audrey C Baxter DBA

Andrew G Baxter BSc.

Ronald Davis

Michael S McGill

Going Concern

The directors have assessed the Group remains a going concern; further details are included in note 2.

Research and development

The Group undertakes research and development activities in order to develop its range of new and existing products.

Future developments, dividends and events after the balance sheet date

The directors have considered and reported any significant future developments, dividends and events after the balance sheet date as part of their Strategic Report.

Financial risk management

The Group's activities expose it to a number of financial risks including credit risk, liquidity risk and market risk. The use of financial derivatives is governed by the Group's board of directors, who provide direction on their use to manage the above risks. The Group does not use derivative financial instruments for speculative purposes. Further information on the Group's financial risk management is provided within note 23.

Staff policies

The Group places considerable value on the contribution of its employees and therefore continues to encourage the development of employee involvement in Group companies. Management meet regularly with employees to discuss matters of mutual interest and to provide opportunities for employees to contribute to the success of the business.

Employee communications are high priority and regular briefing meetings, together with the use of e-mail and notice boards, ensure all employees are informed about matters of concern to them.

The Group's policy is that, where it is reasonable and practical within existing legislation, all employees, including those who are disabled, are treated in the same way in matters relating to employment, training, career development and promotion. Employees who become disabled during the period of their employment will be retained wherever possible and encouraged to develop their careers.

Charitable donations

During the period, the Group made contributions to local charities of £75,000 (2017: £144,000).

BAXTERS FOOD GROUP LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006. 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 Group and of the profit or loss of the Group 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 the financial statements comply with IFRS issued by the IASB and adopted by the European Union, 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 Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006, and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

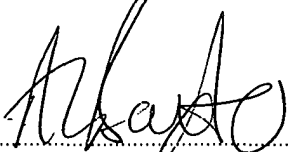
Statement of disclosure to auditor

The directors confirm that:

- a) so far as the directors are aware, there is no relevant audit information of which the Group's auditor is unaware; and
- b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

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

On behalf of the board:



Audrey C Baxter DBA
Director

14 December 2018

BAXTERS FOOD GROUP LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BAXTERS FOOD GROUP LIMITED

Opinion

We have audited the financial statements of Baxters Food Group Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the period ended 31 March 2018 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the balance sheets, the statements of changes in equity, the cash flow statements, the proforma balance sheets and notes to the consolidated financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2018, and of the Group's profit for the period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; 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. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 this 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 Chairman's Statement, the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

BAXTERS FOOD GROUP LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BAXTERS FOOD GROUP LIMITED (CONTINUED)

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the 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 by the Parent Company, 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 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BAXTERS FOOD GROUP LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BAXTERS FOOD GROUP LIMITED (CONTINUED)

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.



Graeme Fraser (Senior Statutory Auditor)
For and on behalf of Johnston Carmichael LLP
Chartered Accountants
Statutory Auditor

14 December 2018
Bishop's Court
29 Albyn Place
Aberdeen
AB10 1YL

BAXTERS FOOD GROUP LIMITED

CONSOLIDATED INCOME STATEMENT

	Note	Period ended 31 March 2018			Period ended 1 April 2017		
		Before exceptional items £'000	Exceptional items (note 10) £'000	Total £'000	Before exceptional items £'000	Exceptional items (note 10) £'000	Total £'000
Revenue	4	338,282	(366)	337,916	296,719	-	296,719
Cost of sales		(229,028)	(3,059)	(232,087)	(197,056)	(2,072)	(199,128)
Gross profit		109,254	(3,425)	105,829	99,663	(2,072)	97,591
Distribution costs		(16,507)	(112)	(16,619)	(15,351)	(31)	(15,382)
Administrative costs		(58,662)	(3,137)	(61,799)	(55,072)	(6,048)	(61,120)
Other income		204	-	204	557	-	557
Earnings before interest, tax, depreciation and amortisation		34,289	(6,674)	27,615	29,797	(8,151)	21,646
Amortisation	5	(1,543)	-	(1,543)	(1,414)	-	(1,414)
Goodwill impairment	10	-	(1,136)	(1,136)	-	-	-
Depreciation	5	(8,671)	-	(8,671)	(8,993)	-	(8,993)
Operating profit	5	24,075	(7,810)	16,265	19,390	(8,151)	11,239
Finance income	8	558	-	558	149	-	149
Finance costs	9	(9,494)	-	(9,494)	(10,741)	(1,322)	(12,063)
Profit/(loss) on ordinary activities before taxation		15,139	(7,810)	7,329	8,798	(9,473)	(675)
Taxation	11	814	658	1,472	(2,668)	1,801	(867)
Profit/(loss) for the period		15,953	(7,152)	8,801	6,130	(7,672)	(1,542)

The income statement has been prepared on the basis that all operations are continuing operations.

Profit/(loss) for the period is 100% attributable to the owners of the company.

BAXTERS FOOD GROUP LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Period ended 31 March 2018 £'000	Period ended 1 April 2017 £'000
Profit/(Loss) for the period		8,801	(1,542)
Other comprehensive income/(expenditure)			
<i>Items that will not be reclassified to profit or loss:</i>			
Revaluation of property, plant and equipment	13	(1,534)	-
Income tax on revaluation of property, plant and equipment	11	261	-
Re-measurement of defined benefit liability	26	(490)	(4,618)
Income tax on re-measurement of defined benefit liability	11	83	831
		<u>(1,680)</u>	<u>(3,787)</u>
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation differences – foreign operations		(4,191)	5,132
Other comprehensive (expenditure)/income, net of tax		<u>(5,871)</u>	<u>1,345</u>
Total comprehensive income/(expenditure) for the period		<u>2,930</u>	<u>(197)</u>

Total comprehensive income/(expenditure) for the period is 100% attributable to the owners of the company.

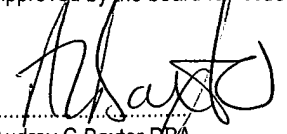
BAXTERS FOOD GROUP LIMITED

BALANCE SHEETS

		Group		Company	
	Notes	31 March 2018 £'000	1 April 2017 £'000	31 March 2018 £'000	1 April 2017 £'000
Assets					
Non-current assets					
Property, plant and equipment	13	82,838	95,589	43,961	46,102
Intangible assets	14	110,176	121,291	26,868	27,121
Investments	15	15	15	45,875	50,003
Trade and other receivables	17	-	-	12,247	15,161
Deferred tax assets	12	3,675	3,915	2,761	2,912
		<u>196,704</u>	<u>220,810</u>	<u>131,712</u>	<u>141,299</u>
Current assets					
Inventories	16	57,533	48,723	15,084	12,202
Trade and other receivables	17	30,871	34,231	86,809	99,642
Current tax receivable		386	119	24	-
Other financial assets	18	-	136	-	136
Cash and cash equivalents	19	19,527	12,550	4,162	3,617
		<u>108,317</u>	<u>95,759</u>	<u>106,079</u>	<u>115,597</u>
Liabilities					
Current liabilities					
Loans and borrowings	21	(21,683)	(20,110)	(21,664)	(20,099)
Trade and other payables	20	(57,326)	(51,318)	(29,460)	(29,564)
Current tax payable		(1,633)	(761)	-	(16)
		<u>(80,642)</u>	<u>(72,189)</u>	<u>(51,124)</u>	<u>(49,679)</u>
Net current assets		<u>27,675</u>	<u>23,570</u>	<u>54,955</u>	<u>65,918</u>
Non-current liabilities					
Loans and borrowings	21	(109,937)	(124,437)	(109,924)	(124,428)
Retirement benefit obligations	26	(16,242)	(16,176)	(16,242)	(16,176)
Deferred income	25	(728)	(743)	-	-
Provisions	24	(4,632)	(5,940)	-	-
Deferred tax liabilities	12	(14,776)	(21,950)	(3,972)	(4,758)
		<u>(146,315)</u>	<u>(169,246)</u>	<u>(130,138)</u>	<u>(145,362)</u>
Net assets		<u>78,064</u>	<u>75,134</u>	<u>56,529</u>	<u>61,855</u>
Equity					
Called up share capital	27	637	637	637	637
Merger reserve	27	350	350	350	350
Revaluation reserve	27	15,670	18,899	15,093	16,039
Capital contribution reserve	27	-	-	1,422	1,422
Translation reserve	27	2,790	6,981	-	-
Retained earnings	27	58,617	48,267	39,027	43,407
Total equity		<u>78,064</u>	<u>75,134</u>	<u>56,529</u>	<u>61,855</u>

As permitted by s408 of the Companies Act 2006, the company has not presented its own Income Statement and related notes. The company's loss for the period was £4,257,000 (2017: profit of £8,927,000).

Approved by the board for issue on 14 December 2018 and signed on its behalf by:


 Audrey C Baxter DBA
 Director

Company Registration No. SC023572

BAXTERS FOOD GROUP LIMITED

STATEMENTS OF CHANGES IN EQUITY

GROUP	Called up share capital £'000	Merger reserve £'000	Revaluation reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
At 3 April 2016	637	350	19,138	1,849	54,364	76,338
Loss for the period	-	-	-	-	(1,542)	(1,542)
Other comprehensive income/(expenditure)	-	-	-	5,132	(3,787)	1,345
Total comprehensive income/(expenditure)	-	-	-	5,132	(5,329)	(197)
Difference between historical cost and actual depreciation charge	-	-	(239)	-	239	-
Dividend paid	-	-	-	-	(1,007)	(1,007)
At 1 April 2017	637	350	18,899	6,981	48,267	75,134
Profit for the period	-	-	-	-	8,801	8,801
Other comprehensive expenditure	-	-	(1,273)	(4,191)	(407)	(5,871)
Total comprehensive (expenditure)/income	-	-	(1,273)	(4,191)	8,394	2,930
Difference between historical cost and actual depreciation charge	-	-	399	-	(399)	-
Disposal of revalued building	-	-	(2,355)	-	2,355	-
At 31 March 2018	637	350	15,670	2,790	58,617	78,064

COMPANY	Called up share capital £'000	Merger reserve £'000	Revaluation reserve £'000	Capital contribution reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
At 3 April 2016	637	350	16,197	1,422	(5,498)	44,614	57,722
Profit for the period	-	-	-	-	-	8,927	8,927
Other comprehensive expenditure	-	-	-	-	-	(3,787)	(3,787)
Total comprehensive income	-	-	-	-	-	5,140	5,140
Difference between historical cost and actual depreciation charge	-	-	(158)	-	-	158	-
Transfer	-	-	-	-	5,498	(5,498)	-
Dividend paid	-	-	-	-	-	(1,007)	(1,007)
At 1 April 2017	637	350	16,039	1,422	-	43,407	61,855
Loss for the period	-	-	-	-	-	(4,257)	(4,257)
Other comprehensive expenditure	-	-	(662)	-	-	(407)	(1,069)
Total comprehensive expenditure	-	-	(662)	-	-	(4,664)	(5,326)
Difference between historical cost and actual depreciation charge	-	-	(284)	-	-	284	-
Transfer	-	-	-	-	-	-	-
At 31 March 2018	637	350	15,093	1,422	-	39,027	56,529

BAXTERS FOOD GROUP LIMITED

CASH FLOW STATEMENTS

		Group		Company	
		Period ended 31 March 2018 £'000	Period ended 1 April 2017 £'000	Period ended 31 March 2018 £'000	Period ended 1 April 2017 £'000
Notes					
Cash flows from operating activities					
Profit/(loss) for the period		8,801	(1,542)	(4,257)	8,927
Adjusted for:					
Depreciation, amortisation and impairment		11,350	10,407	4,037	3,869
Foreign exchange (loss)/gain		(548)	1,300	(1,872)	(993)
Financial income		(10)	(149)	(6,410)	(5,827)
Financial expense		9,093	10,374	9,180	10,364
Loss on sale of property, plant and equipment		-	-	110	163
Deferred government grant		(44)	(76)	-	-
Investment impairment		-	-	4,128	-
Intercompany impairment		-	-	9,898	-
Non-cash provision movements		(713)	(1,044)	-	-
Taxation		(1,472)	815	(441)	(603)
Pension costs less contributions	26	(424)	492	(424)	492
Decrease/(increase) in trade and other receivables		996	173	(3,492)	(14,567)
(Increase)/decrease in inventories		(12,439)	1,093	(2,882)	4,531
Increase/(decrease) in trade and other payables		9,029	4,838	(155)	6,509
		<u>23,619</u>	<u>26,681</u>	<u>7,420</u>	<u>12,865</u>
Cash generated from operating activities					
Interest paid		(8,738)	(8,421)	(8,939)	(8,411)
Tax (paid)/received		(2,897)	(125)	(16)	2
		<u>11,984</u>	<u>18,135</u>	<u>(1,535)</u>	<u>4,456</u>
Net cash generated from/(used in) operating activities					
Cash flow from investing activities					
Proceeds from sale of property, plant and equipment		5,213	280	58	37
Payments to acquire property, plant and equipment	13	(6,233)	(4,568)	(2,223)	(2,336)
Capitalised development expenditure		(1,036)	(1,193)	(283)	(387)
Interest received		10	13	6,546	5,691
		<u>(2,046)</u>	<u>(5,468)</u>	<u>4,098</u>	<u>3,005</u>
Net cash (used in)/generated from investing activities					
Cash flows from financing activities					
New bank loan		1,760	122,744	1,760	122,744
Repayment of borrowings		(3,877)	(129,569)	(3,877)	(129,569)
Debt issuance expenses		-	(1,128)	-	(1,128)
Repayment of finance leases		(39)	(9)	(27)	(9)
Dividends paid	27	-	(1,007)	-	(1,007)
		<u>(2,156)</u>	<u>(8,969)</u>	<u>(2,144)</u>	<u>(8,969)</u>
Net cash used in financing activities					
Net increase/(decrease) in cash and cash equivalents					
		<u>7,782</u>	<u>3,698</u>	<u>419</u>	<u>(1,508)</u>
Cash and cash equivalents at beginning of period		12,550	8,549	3,617	5,265
Effects of exchange fluctuations on cash held		(805)	303	126	(140)
		<u>19,527</u>	<u>12,550</u>	<u>4,162</u>	<u>3,617</u>
Cash and cash equivalents at end of period	19				

BAXTERS FOOD GROUP LIMITED

PROFORMA BALANCE SHEETS

Following the sale of Canada, as discussed in the Chairman's statement on page 1, below is a proforma of both the Group and Company balance sheets, had the sale completed on 31 March 2018 rather than the actual completion date of 17 May 2018.

Group	31 March 2018 Pre Canada Sale £'000	Canada Sale £'000	31 March 2018 Post Canada Sale £'000
Assets			
Non-current assets			
Property, plant and equipment	82,838	(5,482)	77,356
Intangible assets	110,176	(12,741)	97,435
Investments	15	-	15
Trade and other receivables	-	2,585	2,585
Deferred tax assets	3,675	-	3,675
	<u>196,704</u>	<u>(15,638)</u>	<u>181,066</u>
Current assets			
Inventories	57,533	(7,252)	50,281
Trade and other receivables	30,871	(6,000)	24,871
Current tax receivable	386	-	386
Other financial assets	-	-	-
Cash and cash equivalents	19,527	(3,109)	16,418
	<u>108,317</u>	<u>(16,361)</u>	<u>91,956</u>
Liabilities			
Current liabilities			
Loans and borrowings	(21,683)	8,010	(13,673)
Trade and other payables	(57,326)	5,480	(51,846)
Current tax payable	(1,633)	1,608	(25)
	<u>(80,642)</u>	<u>15,098</u>	<u>(65,544)</u>
Net current assets	<u>27,675</u>	<u>(1,263)</u>	<u>26,412</u>
Non-current liabilities			
Loans and borrowings	(109,937)	20,748	(89,189)
Retirement benefit obligations	(16,242)	3,000	(13,242)
Deferred income	(728)	-	(728)
Provisions	(4,632)	-	(4,632)
Deferred tax liabilities	(14,776)	902	(13,874)
	<u>(146,315)</u>	<u>24,650</u>	<u>(121,665)</u>
Net assets	<u>78,064</u>	<u>7,749</u>	<u>85,813</u>
Equity			
Called up share capital	637	-	637
Merger reserve	350	-	350
Revaluation reserve	15,670	-	15,670
Capital contribution reserve	-	-	-
Translation reserve	2,790	92	2,882
Retained earnings	58,617	7,657	66,274
Total equity	<u>78,064</u>	<u>7,749</u>	<u>85,813</u>

The column for adjustments reflects the following:

- Receipt of proceeds of C\$67.5m (£37.8m), net of related costs and expenses
- Elimination of the relevant line items for the Canadian business as part of the de-consolidation
- Gain on sale of £10.4m
- Proceeds applied to reduce debt with the Secured Creditors in the amount of US\$22.4m loan notes and C\$16.5m term debt
- Additional payment of £2.7m for early repayment of loan notes
- Payment of C\$3m put into escrow
- Contribution to the defined benefit pension scheme of £3m
- Remaining proceeds retained for purposes of funding capital expenditure and working capital moving forward

BAXTERS FOOD GROUP LIMITED

PROFORMA BALANCE SHEETS (CONTINUED)

Company

		31 March 2018 Pre Canada Sale £'000	Canada Sale £'000	31 March 2018 Post Canada Sale £'000
Assets	Notes			
Non-current assets				
Property, plant and equipment		43,961	-	43,961
Intangible assets		26,868	-	26,868
Investments		45,875	(19,693)	26,182
Trade and other receivables		12,247	2,585	14,832
Deferred tax assets		2,761	-	2,761
		<u>131,712</u>	<u>(17,108)</u>	<u>114,604</u>
Current assets				
Inventories		15,084	-	15,084
Trade and other receivables		86,809	(2,289)	84,520
Current tax receivable		24	-	24
Cash and cash equivalents		4,162	1,207	5,369
		<u>106,079</u>	<u>(1,082)</u>	<u>104,997</u>
Liabilities				
Current liabilities				
Loans and borrowings		(21,664)	8,000	(13,664)
Trade and other payables		(29,460)	2,386	(27,074)
		<u>(51,124)</u>	<u>10,386</u>	<u>(40,738)</u>
Net current assets		<u>54,955</u>	<u>9,304</u>	<u>64,259</u>
Non-current liabilities				
Loans and borrowings		(109,924)	20,751	(89,173)
Retirement benefit obligations		(16,242)	3,000	(13,242)
Deferred tax liabilities		(3,972)	-	(3,972)
		<u>(130,138)</u>	<u>23,751</u>	<u>(106,387)</u>
Net assets		<u>56,529</u>	<u>15,947</u>	<u>72,476</u>
Equity				
Called up share capital		637	-	637
Merger reserve		350	-	350
Revaluation reserve		15,093	-	15,093
Capital contribution reserve		1,422	-	1,422
Translation reserve		-	-	-
Retained earnings		39,027	15,947	54,974
Total equity		<u>56,529</u>	<u>15,947</u>	<u>72,476</u>

The column for adjustments reflects the following:

- Receipt of proceeds of C\$67.5m (£37.8m), net of related costs and expenses
- Disposal of the investment held by Baxters Food Group £19.7m
- Gain on sale of £18.7m
- Proceeds applied to reduce debt with the Secured Creditors in the amount of US\$22.4m loan notes and C\$16.5m term debt
- Additional payment of £2.7m for early repayment of loan notes
- Payment of C\$3m put into escrow
- Contribution to the defined benefit pension scheme of £3m
- Remaining proceeds retained for purposes of funding capital expenditure and working capital moving forward

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

1. Reporting entity

Baxters Food Group Limited ("the Company") is incorporated and registered in Scotland and is domiciled within the United Kingdom as a private company with liability limited by shares. The Company's registered office is 12 Charlotte Square, Edinburgh, EH2 4DJ and its principal place of business is Fochabers. The current period financial statements present the results for the period ended 31 March 2018.

The Group financial statements comprise the Company and its subsidiaries (collectively the "Group" and individually "Group companies"). The parent company financial statements present information about the Company as a separate entity and not about its group.

2. Accounting policies

Basis of preparation

Both the parent company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). On publishing the parent company financial statements here together with the Group financial statements (collectively "the financial statements"), the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

Going concern

The financial statements have been prepared on a going concern basis for the following reasons. The directors have prepared detailed cash flow projections for a period of at least 12 months from the date of signing these financial statements. The directors are of the opinion that following their review of the cash flow projections and taking account of the debt facilities available to the Group, the Group will be able to meet its liabilities as they fall due for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

2. Accounting policies (continued)

New standards not yet applied

The IASB has issued the following standards and interpretations to be applied to financial statements with years commencing on or after the following dates:

		Effective for accounting periods on or after
IFRS 9	Financial Instruments – will ultimately replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. Early adoption is permitted.	1 January 2018
IFRS 15	Revenue from Contracts with Customers – is intended to clarify the principles of revenue recognition and establish a single framework for revenue recognition. This supersedes IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The core principle is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity is expected to be entitled to, in exchange for those goods or services. Early adoption is permitted.	1 January 2018
IFRS 16	Leases – will replace IAS 17 Leases, IFRIC 14 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The new standard cancels a currently used dual lessee accounting model. This model requires classification of the lease as an on-balance sheet finance lease and off-balance sheet operating lease. It will be replaced by a single model, which implies that the lease is recognised on the balance sheet and is similar to the current accounting treatment for finance leases. Early adoption if permitted provided that IFRS 15 Revenue from Contracts with Customers is also applied.	1 January 2019

Of those standards that are not yet effective, only IFRS 16 is expected to have a material impact on the Group's financial statements in the period of initial application.

IFRS 16 Leases

The Group is required to adopt IFRS 16 Leases from 1 April 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impact of adopting the standard on 1 April 2019 may change because the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items.

IFRS 16 replaces existing guidance, including IAS 17 Leases, IFRIC 14 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Group will recognise new assets and liabilities for its operating leases of warehouse and factory facilities (see note 28). The nature of the expenses related to those leases will now change because the Group will recognise a depreciation charge, over the period of the lease, for right-of-use assets and interest expense on lease liabilities.

Currently, the Group recognises operating lease expenses on a straight-line basis over the term of the lease, and recognises assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

2. Accounting policies (continued)

IFRS 16 Leases (continued)

No significant impact is expected for the Group's finance leases.

Based on the information currently available, the Group estimates that it will recognise additional lease liabilities of £21.4m as at 1 April 2019.

An incremental borrowing rate of 6% has been estimated for use in calculating the liability which reflects the Group's current borrowing rate across its portfolio of leases. The rate will be reviewed and updated at adoption.

The Group bank covenants are based on prevailing GAAP at the time the related bank facilities were entered into. Therefore, the adoption of IFRS 16 will not impact the calculation of or the Group's ability to meet its bank covenants under those bank facilities.

The Group plans to apply IFRS 16 initially on 1 April 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 April 2019, with no restatement of comparative information. The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 April 2019 and identified as leases in accordance with IAS 17 and IFRIC 14.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all its subsidiary undertakings which are made up to 31 March 2018.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Transactions

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

Separate parent company financial statements

In the parent company financial statements, all investments in subsidiaries, joint ventures, and associates are carried at cost less impairment.

Functional and presentational currency

The Group and Company financial statements are presented in sterling, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

Foreign currency transactions

In preparing the financial statements of the Group and Company, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items are recognised in the income statement in the period in which they arise, except for differences arising on the translation of a financial liability designated as a hedge of the net investment in a foreign operation that is effective, which are recognised directly in other comprehensive income. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the rates of exchange prevailing at the dates of the transaction.

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

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

2. Accounting policies (continued)

Revenue

Revenue comprises sales to external customers at the fair value of the consideration received or receivable, excluding VAT, trade discounts and other sales taxes. Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- 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.

Leases

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Operating profit

Operating profit is stated after charging restructuring costs but before investment income and finance costs.

Finance income and finance expenses

The Group's finance income and finance expenses include interest income and expense recognised using the effective interest rate method, the net gain or loss on financial instruments at fair value through profit or loss and any foreign currency gains or losses on financial assets and liabilities.

Taxation

Taxation comprises current and deferred tax. It is recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity or other comprehensive income.

The current corporation tax asset or liability recognised on the statement of financial position represents the current corporation tax balance due from or obligation to the relevant tax authority at the reporting date. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and;
- In respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

2. Accounting policies (continued)

Taxation(continued)

Deferred tax relating to items recognised outside the income statement is recognised outside the income statement. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes related to the same taxable entity and the same taxation authority.

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Any contingent consideration is measured at fair value at the date of acquisition.

Property, plant and equipment

Property, plant and equipment are stated at historic cost or revaluation, less accumulated depreciation and any accumulated impairment losses. Historic cost includes the expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in an asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Buildings	25 years to 50 years
Plant, equipment and vehicles	3 years to 25 years

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

Interim valuations of freehold properties are conducted every three years by a qualified valuer and full valuations are conducted every five years by a qualified valuer. A full valuation was performed as at 31 March 2018. The resulting surplus or deficit on book value is transferred to the revaluation reserve, except for a deficit which is in excess of any previously recognised surplus over depreciated cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the statement of comprehensive income. A deficit which represents a clear consumption of economic benefits is charged to the income statement regardless of any such previous surplus.

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to retained earnings as a movement on reserves. On disposal or recognition of a provision for impairment on a revalued asset, the related balance remaining in the revaluation reserve is also transferred to retained earnings as a movement on reserves.

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

2. Accounting policies (continued)

Intangible assets and goodwill

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired business at the date of acquisition. Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment or if events or changes in circumstances indicate that it might be impaired.

Brands and trademarks

Brands and trademarks represent the cost or fair value on acquisition of recipes and brand names purchased. Brands are amortised over their useful lives ranging between 20 – 45 years. Amortisation methods and useful lives are reviewed at each reporting date and adjusted if appropriate. Certain trade names have an indefinite life and are tested annually for impairment.

Research and development

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

Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in the income statement as incurred. Development costs are amortised over the life of the product.

Other intangible assets

Other intangible assets, including customer relationships that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses. Other intangible assets are amortised over their useful lives of 45 years.

Impairment of non-financial assets

At each balance sheet date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Goodwill is tested annually for impairment. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

An impairment loss in respect of goodwill is not reversed.

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

2. Accounting policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises materials, direct labour and an appropriate share of related fixed and variable production overheads based on normal operating capacity. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs to make the sale.

Trade receivables

Trade receivables are non-interest bearing and are initially recognised at fair value and subsequently measured at amortised cost, less provision for estimated irrecoverable amounts. Estimated irrecoverable amounts are based on historical experience, together with specific amounts that are not expected to be collected. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Individual trade receivables are written off when management deems them not to be collected.

Cash and cash equivalents

Cash and short term deposits in the statement of financial position comprise cash at banks and in hand and short term deposits with an original maturity of three months or less.

Trade payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Loans and borrowings

Loans and borrowings are initially recognised at fair value net of directly attributable transaction costs. Interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on the repurchase, settlement or otherwise cancellation of loans and borrowings are recognised respectively in finance income and finance cost.

Government grants

Grants are credited to deferred income. Grants towards capital expenditure are released to the income statement over the expected useful life of the assets. Grants towards revenue expenditure are released to the income statement as the related expenditure is incurred.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

2. Accounting policies (continued)

Employee benefits

The Group operates a defined benefit pension scheme. The Group's net obligation in respect of its defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately within other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in the income statement.

The Group also operates defined contribution pension schemes. The pension costs charged in the financial statements represent the contributions payable by the Group during the period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group 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.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

The fair value of forward contracts is calculated by reference to market forward rates at the balance sheet date.

In order to qualify for hedge accounting, the Group is required to document in advance the relationship between the item being hedged and the hedging instrument and demonstrate that the hedge will be highly effective on an ongoing basis. This effectiveness testing is re-performed periodically to ensure that the hedge remains highly effective.

Gains and losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income. Gains or losses relating to any ineffective portion are taken immediately to the income statement. Amounts accumulated in equity are transferred to the income statement when the foreign operation is partially disposed of or sold. Currently the Group does not utilise either fair value or cash flow hedge accounting.

Share capital

Share capital issued by the Group is recorded at the proceeds received, net of direct issue costs.

Dividends

Interim dividends are recorded when paid. The liability for final dividends is recorded when the dividends are approved by the Company's shareholders.

Exceptional items

Exceptional items are those significant items which are separately disclosed by virtue of their nature or size to enable a better understanding of the Group's underlying financial performance by the users of the financial statements.

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

3. Critical accounting estimates and judgements

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Employee Benefits

The present value of the Group's defined benefit pension obligations depends on a number of actuarial assumptions. The key assumptions used include the discount rate, pension increases, mortality rates applicable to scheme members and long term inflation rates. Due to the long-term nature of these schemes, the estimates are subject to significant uncertainty. An analysis of the sensitivity of the pension obligations to changes in key assumptions is provided in note 26.

Goodwill and other intangible assets

Impairment reviews in respect of goodwill are performed annually unless an event indicates that an impairment review is necessary. Impairment reviews in respect of intangible assets are performed when an event indicates that an impairment review is necessary. Examples of such triggering events include a significant planned restructuring, a major change in market conditions or technology, expectations of future operating losses, or a significant reduction in cash flows. The recoverable amounts of cash generating units are determined based on the higher of net realisable value and value in use calculations. These calculations require the use of estimates. Intangible assets with indefinite useful lives are tested annually for impairment.

The Group has considered the impact of the assumptions used on the calculations and has conducted sensitivity analysis on the impairment tests of the cash generating units' carrying values. Further details of the sensitivity analysis is provided in note 14.

Acquired brands, trademarks and customer relationships are considered to have finite lives that range from 20-45 years. Acquired trade names are considered to have an indefinite useful life. The determination of the useful lives takes into account certain quantitative factors such as sales expectations and also many qualitative factors such as history and market positioning, hence the determination of useful lives are subject to estimates and judgement. Further details are provided in note 14.

Intercompany balances – parent company

Linked to the appraisal of goodwill, is the recoverability of intercompany balances from subsidiaries in the entity accounts for the Company. Recoverability reviews are performed when events indicate that this may be necessary, such as changes in market conditions, customer losses, expectations of future losses or a requirement for additional funding. The recoverability of amounts from subsidiaries is determined based on net realisable value including cash generated from operations. These calculations necessarily involve future projections and involve the use of estimates.

Deferred tax

The recognition of deferred tax assets is dependent upon an estimation of future taxable profits that will be available against which deductible temporary differences can be utilised. In the event that actual taxable profits are different, such differences may impact the carrying value of such deferred tax assets in future years. Further details of recognised (and unrecognised) deferred tax assets are provided in note 12.

4. Revenue

An analysis of Group revenue by geographical area is as follows:

	Period ended 31 March 2018 £'000	Period ended 1 April 2017 £'000
United Kingdom	83,594	84,350
International	254,322	212,369
	<u>337,916</u>	<u>296,719</u>

The directors believe the Group to have one revenue type, being the manufacture and supply of high quality ambient food.

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

5. Operating profit/(loss)

	Period ended 31 March 2018 £'000	Period ended 1 April 2017 £'000
Operating profit/(loss) is stated after charging/(crediting):		
Amortisation of intangible assets	1,543	1,414
Depreciation of tangible assets	8,671	8,993
Operating lease rentals	6,444	6,518
Research costs	440	274
Exceptional items – note 10	7,810	9,473
Amortisation of government grants	(44)	(76)
	<u> </u>	<u> </u>

Services provided by the Group's auditor

During the period the Group obtained the following services from the Group's auditor, Johnston Carmichael LLP:

	Period ended 31 March 2018 £'000	Period ended 1 April 2017 £'000
Audit services		
Statutory audit – Company and Group	8	7
– UK subsidiaries	114	107
– Baxters Food Group Pension Scheme	3	9
Tax services	10	31
Other services	14	3
	<u> </u>	<u> </u>
	<u>149</u>	<u>157</u>

6. Directors' emoluments

	Period ended 31 March 2018 £'000	Period ended 1 April 2017 £'000
Emoluments for qualifying services	1,568	1,825
Company contributions to defined benefit scheme	8	30
	<u> </u>	<u> </u>

The number of directors for whom retirement benefits are accruing under defined benefit schemes amounted to 1 (2017: 1).

Emoluments disclosed above include the following amounts paid to the highest paid director:

	Period ended 31 March 2018 £'000	Period ended 1 April 2017 £'000
Emoluments for qualifying services	808	882
Accrued pension at the end of the period	-	-
	<u> </u>	<u> </u>

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

7. Employees

The average monthly number of employees (including directors) employed by the Group during the period was as follows:

	Period ended 31 March 2018 Number	Period ended 1 April 2017 Number
Direct	917	797
Others	669	666
	<u>1,586</u>	<u>1,463</u>

Staff costs for the Group were:

	Period ended 31 March 2018 £'000	Period ended 1 April 2017 £'000
Wages and salaries	47,552	48,550
Social security costs	5,653	7,322
Other pension costs	1,790	1,726
	<u>54,995</u>	<u>57,598</u>

8. Finance income

	Period ended 31 March 2018 £'000	Period ended 1 April 2017 £'000
Net gain on financial instruments designated as fair value through profit or loss	-	136
Interest on loans and overdrafts	10	7
Other interest income	-	6
Foreign exchange gain	548	-
Total finance income	<u>558</u>	<u>149</u>

9. Finance costs

	Period ended 31 March 2018 £'000	Period ended 1 April 2017 £'000
Net loss on financial instruments designated as fair value through profit or loss	136	-
Interest on loans and overdrafts including exceptionals of £nil (2017: £1,322,000)	8,699	10,145
Interest on obligations under finance lease	7	2
Other interest expense	251	227
Net interest on net defined benefit pension plan liability	401	389
Foreign exchange loss	-	1,300
Total finance costs	<u>9,494</u>	<u>12,063</u>

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

10. Exceptional items

The Group reports the following exceptional items:

	Period ended 31 March 2018 £'000	Period ended 1 April 2017 £'000
Non-recurring projects	-	2,201
Restructuring and related costs	1,017	4,043
Sale and leaseback	(575)	-
Historic refinancing costs not amortised	-	1,323
New and onerous contract costs	5,128	1,906
Asset impairment	1,104	-
Australia goodwill impairment	1,136	-
	7,810	9,473
Tax on exceptional items above	(658)	(1,801)
Total exceptional items expense	7,152	7,672

11. Taxation

	Period ended 31 March 2018 £'000	Period ended 1 April 2017 £'000
Recognised in income statement		
Domestic current tax		
Adjustment in respect of prior periods	(24)	340
Domestic current tax (credit)/charge	(24)	340
Foreign current tax		
Current period	3,448	691
Adjustment in respect of prior periods	77	492
Foreign current tax charge	3,525	1,183
Current tax charge	3,501	1,523
Deferred tax		
Relating to origination and reversal of temporary timing differences	480	751
Recognition of a recoverable deferred tax asset	231	(1,217)
Deferred tax on pension liability	81	(89)
Reduction in tax rate	(5,837)	-
Effect of tax rate in foreign jurisdictions	(110)	-
Adjustment in respect of prior periods	182	(101)
Deferred tax credit	(4,973)	(656)
Total tax (credit)/charge	(1,472)	867

	Period ended 31 March 2018 £'000	Period ended 1 April 2017 £'000
Recognised in other comprehensive income		
Revaluation of property, plant and equipment	(261)	-
Re-measurement of defined benefit liability	(83)	(831)
Foreign exchange translation differences	(1,586)	1,724
	(1,930)	893

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

11. Taxation (continued)

	Period ended 31 March 2018 £'000	Period ended 1 April 2017 £'000
Reconciliation of effective tax rate		
Profit/(loss) for the period	8,801	(1,542)
Total tax (credit)/charge	(1,472)	867
Profit/(loss) on ordinary activities before tax	7,329	(675)
Profit/(loss) on ordinary activities multiplied by standard rate of UK corporation tax of 19% (2017: 20%)	1,392	(135)
Expenses not deductible for tax purposes	440	1,014
Income not taxable	(442)	(627)
Fixed asset differences	110	(113)
Recognition of previously unrecognised tax losses	-	-
Utilisation of previously unrecognised tax losses	(578)	(942)
Reversal of previous recognised deferred tax asset	-	-
Current period losses for which no deferred tax asset was recognised	1,824	732
Effect of tax on foreign jurisdictions	1,523	111
Effect of change in tax rate	(5,837)	106
Effect of pension costs	-	-
R&D tax credit	(139)	(10)
Adjustment in respect of prior periods	235	731
Total tax (credit)/charge	(1,472)	867

12. Deferred tax assets and liabilities

Group

The Group recognised deferred tax assets and liabilities attributable to the following:

	Assets		Liabilities	
	31 March 2018 £'000	1 April 2017 £'000	31 March 2018 £'000	1 April 2017 £'000
Property, plant and equipment	-	-	(9,476)	(15,162)
Intangible assets	-	-	(9,979)	(17,654)
Employee benefits	2,761	2,912	-	-
Tax value of loss carry-forwards	4,873	9,761	-	-
Other	713	3,123	7	(1,015)
Tax assets/(liabilities)	8,347	15,796	(19,448)	(33,831)
Net of tax assets	(4,672)	(11,881)	4,672	11,881
Net tax assets/(liabilities)	3,675	3,915	(14,776)	(21,950)

A deferred tax asset has not been recognised on unutilised tax losses of £5,939,000 (2017: £6,613,000), because it is not currently probable that future taxable profit will be available against which the Group can utilise the asset.

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

12. Deferred tax assets and liabilities (continued)

Movement in deferred tax during the period

	2 April 2017 £'000	Recognised in income statement £'000	Recognised in other comprehensive income £'000	Reclassification £'000	31 March 2018 £'000
Property, plant and equipment	(15,162)	4,540	1,146	-	(9,476)
Intangible assets	(17,654)	5,812	1,863	-	(9,979)
Employee benefits	2,912	(234)	83	-	2,761
Tax value of loss carry-forwards	9,761	(3,996)	(892)	-	4,873
Other	2,108	(1,149)	(270)	31	720
	<u>(18,035)</u>	<u>4,973</u>	<u>1,930</u>	<u>31</u>	<u>(11,101)</u>

Movement in deferred tax during the prior period

	3 April 2016 £'000	Recognised in income statement £'000	Recognised in other comprehensive income £'000	Acquired in business combination £'000	1 April 2017 £'000
Property, plant and equipment	(14,810)	691	(1,043)	-	(15,162)
Intangible assets	(15,035)	160	(2,000)	(779)	(17,654)
Employee benefits	1,992	89	831	-	2,912
Tax value of loss carry-forwards	8,572	89	1,100	-	9,761
Other	2,196	(373)	285	-	2,108
	<u>(17,085)</u>	<u>656</u>	<u>(827)</u>	<u>(779)</u>	<u>(18,035)</u>

Company

The Company recognised deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	31 March 2018 £'000	1 April 2017 £'000	31 March 2018 £'000	1 April 2017 £'000
Property, plant and equipment	-	-	(4,138)	(5,526)
Employee benefits	2,761	2,912	-	-
Tax value of loss carry-forwards	644	1,217	-	-
Other	-	-	(478)	(449)
	<u>3,405</u>	<u>4,129</u>	<u>(4,616)</u>	<u>(5,975)</u>
Tax assets/(liabilities)	<u>3,405</u>	<u>4,129</u>	<u>(4,616)</u>	<u>(5,975)</u>
Net of tax assets	<u>(644)</u>	<u>(1,217)</u>	<u>644</u>	<u>1,217</u>
	<u>2,761</u>	<u>2,912</u>	<u>(3,972)</u>	<u>(4,758)</u>
Net tax assets/(liabilities)	<u>2,761</u>	<u>2,912</u>	<u>(3,972)</u>	<u>(4,758)</u>

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

12. Deferred tax assets and liabilities (continued)

Movement in deferred tax during the period

	2 April 2017 £'000	Recognised in income statement £'000	Recognised in other comprehensive income £'000	31 March 2018 £'000
Property, plant and equipment	(5,526)	1,253	135	(4,138)
Employee benefits	2,912	(234)	83	2,761
Tax value of loss carry-forwards	1,217	(573)	-	644
Other	(449)	(29)	-	(478)
	<u>(1,846)</u>	<u>417</u>	<u>218</u>	<u>(1,211)</u>

Movement in deferred tax during the prior period

	3 April 2016 £'000	Recognised in income statement £'000	Recognised in other comprehensive income £'000	1 April 2017 £'000
Property, plant and equipment	(5,874)	348	-	(5,526)
Employee benefits	1,992	89	831	2,912
Tax value of loss carry-forwards	269	948	-	1,217
Other	45	(494)	-	(449)
	<u>(3,568)</u>	<u>891</u>	<u>831</u>	<u>(1,846)</u>

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

13. Property, plant and equipment

Group	Freehold land and buildings £'000	Leasehold land and buildings £'000	Plant, equipment and vehicles £'000	Total £'000
Cost or valuation				
At 3 April 2016	39,975	3,575	102,363	145,913
Exchange adjustments	615	400	6,241	7,256
Additions	297	675	3,690	4,662
Disposals	(7)	(214)	(1,043)	(1,264)
At 1 April 2017	40,880	4,436	111,251	156,567
Exchange adjustments	(68)	(422)	(5,551)	(6,041)
Additions	9	987	5,360	6,356
Disposals	(3,888)	(520)	(21,926)	(26,334)
Reclassification	(911)	-	911	-
Revaluation	(5,342)	-	-	(5,342)
At 31 March 2018	30,680	4,481	90,045	125,206
Accumulated depreciation				
At 3 April 2016	1,278	1,260	48,370	50,908
Exchange adjustments	179	123	1,759	2,061
Charge for the period	1,520	342	7,131	8,993
Disposals	-	(215)	(769)	(984)
At 1 April 2017	2,977	1,510	56,491	60,978
Exchange adjustments	31	(145)	(2,238)	(2,352)
Charge for the period	1,414	335	6,922	8,671
Disposals	(614)	(445)	(20,062)	(21,121)
Revaluation	(3,808)	-	-	(3,808)
At 31 March 2018	-	1,255	41,113	42,368
Net book value				
At 31 March 2018	30,680	3,226	48,932	82,838
At 1 April 2017	37,903	2,926	54,760	95,589
At 3 April 2016	38,697	2,315	53,993	95,005

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

13. Property, plant and equipment (continued)

Company	Freehold land and buildings £'000	Leasehold land and buildings £'000	Plant, equipment and vehicles £'000	Total £'000
Cost or valuation				
At 3 April 2016	31,557	397	50,968	82,922
Additions	246	285	1,879	2,410
Disposals	(6)	-	(442)	(448)
At 1 April 2017	31,797	682	52,405	84,884
Additions	-	635	1,690	2,325
Disposals	-	(311)	(18,585)	(18,896)
Reclassification	(911)	-	911	-
Revaluation	(4,237)	-	-	(4,237)
At 31 March 2018	26,649	1,006	36,421	64,076
Accumulated depreciation				
At 3 April 2016	1,009	295	34,370	35,674
Charge for the period	1,212	17	2,127	3,356
Disposals	-	-	(248)	(248)
At 1 April 2017	2,221	312	36,249	38,782
Charge for the period	1,219	32	2,250	3,501
Disposals	-	(236)	(18,492)	(18,728)
Revaluation	(3,440)	-	-	(3,440)
At 31 March 2018	-	108	20,007	20,115
Net book value				
At 31 March 2018	26,649	898	16,414	43,961
At 1 April 2017	29,576	370	16,156	46,102
At 3 April 2016	30,548	102	16,598	47,248

Freehold land and buildings were independently professionally valued at 31 March 2018 by F.G. Burnett, Chartered Surveyors (United Kingdom), Deloitte Real Estate (Manor Vinegar), Frąckowiak i Wspólnicy WGB Sp. z o.o. (Poland) and Thompson May (Australia). The basis of their valuations were determined through reference to existing market data, such as comparable rental yields or replacement cost. Assets in the course of construction are held at cost.

	Group		Company	
	31 March 2018 £'000	1 April 2017 £'000	31 March 2018 £'000	1 April 2017 £'000
Valuation (31 March 2018)	28,070	35,107	21,905	26,142
Cost	2,610	5,773	4,744	5,655
	30,680	40,880	26,649	31,797

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

14. Intangible assets

Group	Goodwill £'000	Customer relationships £'000	Brands & trademarks £'000	Development expenditure £'000	Total £'000
Cost					
At 3 April 2016	49,387	31,173	34,977	1,074	116,611
Exchange adjustments	3,828	4,150	2,251	25	10,254
Additions	779	-	-	1,193	1,972
At 1 April 2017	53,994	35,323	37,228	2,292	128,837
Exchange adjustments	(3,457)	(3,793)	(2,056)	(573)	(9,879)
Additions	-	-	-	1,036	1,036
At 31 March 2018	50,537	31,530	35,172	2,755	119,994
Accumulated amortisation and impairment					
At 3 April 2016	-	990	4,153	667	5,810
Exchange adjustments	-	208	114	-	322
Charge for the period	-	708	495	211	1,414
At 1 April 2017	-	1,906	4,762	878	7,546
Exchange adjustments	(27)	(249)	(109)	(22)	(407)
Charge for the period	-	745	412	386	1,543
Impairment charge for the period	1,136	-	-	-	1,136
At 31 March 2018	1,109	2,402	5,065	1,242	9,818
Net book value					
At 31 March 2018	49,428	29,128	30,107	1,513	110,176
At 1 April 2017	53,994	33,417	32,466	1,414	121,291
At 3 April 2016	49,387	30,183	30,824	407	110,801

Impairment testing

Goodwill and indefinite life intangible assets considered significant in comparison to the Group's total carrying amount of such assets have been allocated to cash generating units or groups of cash generating units as follows:

	Goodwill		Indefinite life intangible assets	
	31 March 2018 £'000	1 April 2017 £'000	31 March 2018 £'000	1 April 2017 £'000
USA	20,934	23,051	15,769	17,667
Canada	12,716	13,804	-	-
CCL	7,514	7,514	-	-
Garners	7,159	7,159	-	-

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

14. Intangible assets (continued)

The recoverable amount of each cash generating unit has been calculated with reference to its value in use. The key assumptions of the calculations are shown below:

	31 March 2018	1 April 2017
Period on which management approved forecasts are based	5 years	5 years
Discount rate	7.6%	7.6%

The discount rate used is the weighted average cost of capital which reflects the returns on government bonds with a maturity of fifteen or twenty years and an equity risk premium adjusted for the industry and market. Further risk premiums are applied according to management's assessment of the risks in respect of the cash flows. The Group applies pre-tax discount rates to pre-tax cash flows.

With respect to goodwill impairment testing, the only issue noted was in respect of the Australian cash generating unit, which highlighted the need for a goodwill impairment of £1.1m, due to the challenges the Australian business unit is experiencing. The recoverable amount remaining for the Australia goodwill is A\$2.0m.

The Wornick Company trade name has an indefinite useful life. There are no legal, regulatory or contractual provisions that the directors believe limit the useful life of this tradename. The tradename was created 39 years ago and there are no plans to discontinue the use of the tradename. Accordingly, the directors believe that it is appropriate that the tradename is treated as having an indefinite useful life for accounting purposes and therefore is not amortised.

Company	Goodwill £'000	Brands & trademarks £'000	Development expenditure £'000	Total £'000
Cost or valuation				
At 3 April 2016	12,316	18,047	864	31,227
Additions	-	-	387	387
At 1 April 2017	12,316	18,047	1,251	31,614
Additions	-	-	283	283
At 31 March 2018	12,316	18,047	1,534	31,897
Accumulated depreciation				
At 3 April 2016	-	3,313	667	3,980
Charge for the period	-	383	130	513
At 1 April 2017	-	3,696	797	4,493
Charge for the period	-	383	153	536
At 31 March 2018	-	4,079	950	5,029
Net book value				
At 31 March 2018	12,316	13,968	584	26,868
At 1 April 2017	12,316	14,351	454	27,121
At 3 April 2016	12,316	14,734	197	27,247

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

14. Intangible assets (continued)

Impairment testing

Goodwill considered significant in comparison to the Company's total carrying amount of goodwill has been allocated to cash generating units or groups of cash generating units as follows:

	Goodwill	
	31 March 2018	1 April 2017
	£'000	£'000
CCL	6,711	6,711
Garners	5,605	5,605

There were no other intangible assets with an indefinite useful life in the Company. The recoverable amount of each cash generating unit has been calculated with reference to its value in use. The key assumptions of the calculations are shown below:

	31 March 2018	1 April 2017
Period on which management approved forecasts are based	5 years	5 years
Discount rate	7.6%	7.6%

The discount rate used is the weighted average cost of capital which reflects the returns on government bonds with a maturity of fifteen or twenty years and an equity risk premium adjusted for the industry and market. Further risk premiums are applied according to management's assessment of the risks in respect of the cash flows. The Group applies pre-tax discount rates to pre-tax cash flows.

15. Fixed asset investments

Fixed asset investments				
Group	Unlisted investments £'000			Total £'000
Cost				
At 1 April 2017 and 31 March 2018	15			15
Company	Unlisted investments £'000	Capital contributions to subsidiary undertaking £'000	Shares in Group undertakings £'000	Total £'000
Cost				
At 3 April 2016, 1 April 2017 and 31 March 2018	15	125	51,497	51,637
Impairment				
At 3 April 2016 and 1 April 2017	-	-	1,634	1,634
Impairment in the period	-	-	4,128	4,128
At 1 31 March 2018	-	-	5,762	5,762
Net Book Value				
At 31 March 2018	15	125	45,735	45,875
At 3 April 2016 and 1 April 2017	15	125	49,863	50,003

The directors have sought to impair the investment Baxters Food Group Limited holds in Baxters Foods Australia Pty Limited based on their assessment of its recoverability.

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

15. Fixed asset investments (continued)

Principal Group investments

On 31 March 2018 the parent company and the Group have investments in the following subsidiary undertakings which principally affected the profits or net assets of the Group:

Subsidiary undertakings	Country of registration or incorporation	Shares held		Principal activity
		Class	%	
The Wornick Company Inc.	USA	Ordinary	100	Manufacture/sale of foodstuffs
Baxters Canada Inc.	Canada	Ordinary	100	Manufacture/sale of foodstuffs
Baxters Foods Australia Pty Limited	Australia	Ordinary	100	Manufacture/sale of foodstuffs
Baxters Food Group Properties Pty Limited	Australia	Ordinary	100	Property rental to Baxters Foods Australia Pty Limited
Baxters Polska Sp.z.o.o	Poland	Ordinary	100	Manufacture/sale of foodstuffs

Other non-principal Group investments are disclosed within note 32.

16. Inventories	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Raw materials and consumables	11,807	10,643	998	793
Packing materials	5,979	5,294	894	880
Finished goods	39,747	32,786	13,192	10,529
	<u>57,533</u>	<u>48,723</u>	<u>15,084</u>	<u>12,202</u>

Inventories of £194.5m (2017: £165.9m) were recognised as an expense during the period and included in the Group cost of sales.

17. Trade and other receivables	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Trade receivables	25,603	29,846	8,734	8,332
Other receivables	3,009	2,296	888	964
Prepayments and accrued income	1,897	1,726	777	938
Amounts owed by Group undertaking	362	363	88,657	104,569
	<u>30,871</u>	<u>34,231</u>	<u>99,056</u>	<u>114,803</u>
Non-current	-	-	12,247	15,161
Current	<u>30,871</u>	<u>34,231</u>	<u>86,809</u>	<u>99,642</u>
	<u>30,871</u>	<u>34,231</u>	<u>99,056</u>	<u>114,803</u>

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk of the industry and country in which customers operate.

The Board of Directors has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, if they are available, and in some cases bank references. Sales limits are established for each customer and reviewed quarterly. Any sales exceeding those limits require approval from the board of directors.

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

17. Trade and other receivables (continued)

The Group allows an average debtor's payment period of 60 days after invoice date. Interest is charged on overdue debts at a business unit/customer specific rate where it is deemed necessary. It is the Group's policy to assess debtors for recoverability on an individual basis and to make provision where it is considered necessary. In assessing recoverability the Group takes into account any indicators of impairment up until the reporting date.

The overall application of this credit policy generally results in debts between 61 and 120 days not requiring to be provided for. Debtors balances over 120 days are reviewed on an individual basis and provided for where indicate that a debt is impaired.

Trade receivables that are neither impaired nor past due make up of 98% debtors' balances (2017: 98%). None of the individual balances is considered to represent a significant portion of the total balance. Historically these debtors have always paid balances when due, unless the balance or the quality of goods or services delivered is disputed. The average age of these debtors is 28 days (2017: 37 days). No debtors' balances have been renegotiated during the period or in the prior period.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

At 31 March 2018, the maximum exposure to credit risk for trade and other receivables by geographic region was as follows:

	Group		Company	
	2018	2017	2018	2017
Carrying amount	£'000	£'000	£'000	£'000
UK	8,734	8,332	8,734	8,332
US	11,181	15,582	-	-
Canada	4,068	4,274	-	-
Australia	1,619	1,658	-	-
Other	1	-	-	-
	<u>25,603</u>	<u>29,846</u>	<u>8,734</u>	<u>8,332</u>

Impairment

At 31 March 2018, the ageing of trade and other receivables that were not impaired was as follows:

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Neither past due nor impaired	25,218	29,394	8,734	8,331
Past due 61-90 days	132	66	-	1
Past due 91-120 days	39	93	-	-
Past due over 120 days	214	293	-	-
	<u>25,603</u>	<u>29,846</u>	<u>8,734</u>	<u>8,332</u>

Management believes that the unimpaired amounts that are past due are still collectible in full, based on historical payment behaviour and analysis of customer credit risk, including underlying customers' credit ratings if they are available.

18. Other financial assets

	2018	2017
Group and company	£'000	£'000
Financial assets designated as fair value through the profit and loss (note 22)	-	136

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

19. Cash and cash equivalents	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Cash on hand and balances with banks	19,527	12,550	4,162	3,617
20. Trade and other payables	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Trade payables	41,640	38,887	11,753	11,710
Amounts owed to Group undertakings	-	-	10,245	11,716
Accruals and deferred income	14,504	11,800	7,052	5,707
Other payables	1,182	631	410	431
	57,326	51,318	29,460	29,564
21. Loans and borrowings	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Current				
Secured bank loans	21,622	19,925	21,622	19,925
Other loans	-	159	-	159
Finance lease liabilities	61	26	42	15
	21,683	20,110	21,664	20,099
Non-current				
Secured bank loans	28,045	32,759	28,045	32,759
Secured loan notes	81,781	91,619	81,781	91,619
Finance lease liabilities	111	59	98	50
	109,937	124,437	109,924	124,428

The Group facilities comprise \$115m of 7 year private placement loan notes at 6.9% interest with Pricoa and a 5 year multi-currency £40m term and £18m revolving credit facilities provided by HSBC. Term bank loans are repayable by instalments over a 5 year period and bear interest at variable rates above the appropriate multi-currency bank rate. The bank facilities are secured by letters of offset and cross guarantees from all non dormant Group companies, and by a floating charge over the assets of W.A. Baxter & Sons (Holdings) Limited and Baxters Food Group Limited.

Loans from The Baxter Family Trust and Highlands and Islands Enterprise (HIE) are included within other loans. The Baxter Family Trust loan, a related party of the Group, carried interest at 0.75% above the Bank of Scotland base rate and was repaid during 2017. The HIE loan was repayable over 48 monthly instalments that commenced in September 2013, beared interest at a fixed rate of 1% and was repaid during the financial period.

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

21. Loans and borrowings (continued)

Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Less than one year	61	26	42	15
Between one and five years	111	59	98	50
	<u>172</u>	<u>85</u>	<u>140</u>	<u>65</u>

22. Financial instruments – accounting classifications and fair value

The following table shows the Group's carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy:

Group	Loans and receivables		Other financial liabilities	Total
31 March 2018	£'000		£'000	£'000
Financial assets not measured at fair value				
Trade and other receivables	28,974	-	-	28,974
Cash and cash equivalents	19,527	-	-	19,527
	<u>48,501</u>	<u>-</u>	<u>-</u>	<u>48,501</u>
Financial liabilities not measured at fair value				
Secured bank loans	-	(49,667)	(49,667)	(49,667)
Secured loan notes	-	(81,781)	(81,781)	(81,781)
Finance lease liabilities	-	(172)	(172)	(172)
Trade and other payables	-	(57,326)	(57,326)	(57,326)
	<u>-</u>	<u>(188,946)</u>	<u>(188,946)</u>	<u>(188,946)</u>
1 April 2017	Derivatives (FVTPL)	Loans and receivables	Other financial liabilities	Total
	£'000	£'000	£'000	£'000
Financial assets not measured at fair value				
Trade and other receivables	-	32,505	-	32,505
Cash and cash equivalents	-	12,550	-	12,550
	<u>-</u>	<u>45,055</u>	<u>-</u>	<u>45,055</u>
Financial assets measured at fair value				
Forward exchange contracts (note 18)	136	-	-	136
	<u>136</u>	<u>-</u>	<u>-</u>	<u>136</u>
Financial liabilities not measured at fair value				
Secured bank loans	-	-	(52,684)	(52,684)
Secured loan notes	-	-	(91,619)	(91,619)
Unsecured other loans	-	-	(159)	(159)
Finance lease liabilities	-	-	(85)	(85)
Trade and other payables	-	-	(51,318)	(51,318)
	<u>-</u>	<u>-</u>	<u>(195,865)</u>	<u>(195,865)</u>

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

22. Financial instruments – accounting classification and fair value (continued)

Company		Loans and receivables £'000	Other financial liabilities £'000	Total £'000
31 March 2018				
Financial assets not measured at fair value				
Trade and other receivables		98,279	-	98,279
Cash and cash equivalents		4,162	-	4,162
		<u>102,441</u>	<u>-</u>	<u>102,441</u>
Financial liabilities not measured at fair value				
Secured bank loans		-	(49,667)	(49,667)
Secured loan notes		-	(81,781)	(81,781)
Finance lease liabilities		-	(140)	(140)
Trade and other payables		-	(29,460)	(29,460)
		<u>-</u>	<u>(161,048)</u>	<u>(161,048)</u>
1 April 2017	Derivatives (FVTPL) £'000	Loans and receivables £'000	Other financial liabilities £'000	Total £'000
Financial assets not measured at fair value				
Trade and other receivables	-	113,865	-	113,865
Cash and cash equivalents	-	3,617	-	3,617
	<u>-</u>	<u>117,482</u>	<u>-</u>	<u>117,482</u>
Financial assets measured at fair value				
Forward exchange contracts (note 18)	136	-	-	136
	<u>136</u>	<u>-</u>	<u>-</u>	<u>136</u>
Financial liabilities not measured at fair value				
Secured bank loans	-	-	(52,684)	(52,684)
Secured loan notes	-	-	(91,619)	(91,619)
Unsecured other loans	-	-	(159)	(159)
Finance lease liabilities	-	-	(65)	(65)
Trade and other payables	-	-	(29,564)	(29,564)
	<u>-</u>	<u>-</u>	<u>(174,091)</u>	<u>(174,091)</u>

Excluded from financial assets are prepayments as these assets fall out with the scope of financial instruments due to the cash element having been settled. The fair value and carrying value of financial instruments have been assessed and there is deemed to be no material differences between fair value and carrying value.

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

23. Financial risk management

The Group is exposed to financial risks including, capital risk, credit risk, liquidity risk and certain market-based risks principally being the effects of changes in foreign exchange rates and interest rates. The Group manages these risks within the context of a set of formal policies established by the Board. It is the Group's policy that no speculative trading in financial instruments shall be undertaken. These policies have remained unchanged throughout the period, are consistent with the previous period and are summarised below:

23.1 Capital risk management

When managing capital, the Group's objectives are to safeguard the business as a going concern, provide returns to shareholders, benefits for other stakeholders and maintain an optimal capital structure. The Group's capital structure consists of debt, cash and equity of the Group. In order to maintain its capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Board monitors the strength of the Group's balance sheet by reference to the gearing and net debt to EBITDA ratios, which expresses the Group's net debt as a percentage of its equity and EBITDA. Net debt is total borrowings less cash and cash equivalents. Equity comprises issued share capital, reserves and retained earnings. EBITDA is earnings before interest, tax, depreciation and amortisation. The gearing ratios at 31 March 2018 and 1 April 2017 were as follows:

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Total borrowings (note 21)	131,620	144,547	131,588	144,527
Less: cash and cash equivalents (note 19)	(19,527)	(12,550)	(4,162)	(3,617)
Net debt	112,093	131,997	127,426	140,910
EBITDA	34,289	29,797	15,276	20,213
EBITDA ratio	327%	442%	834%	697%
Equity	78,064	75,134	56,529	61,855
Gearing ratio	144%	176%	225%	228%

23.2 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash and cash equivalents.

The carrying amount of financial assets represents the maximum credit exposure. Refer to note 17 for further details on the Group exposure to credit risk.

Cash and cash equivalents

The Group held cash and cash equivalents of £19.5m at 31 March 2018 (2017: £12.6m). The cash and cash equivalents are held with bank and financial institution counterparties, which are rated A to A+, based on Standard & Poor's ratings.

Derivatives

The derivatives were entered into with bank and financial institution counterparties, which are rated A, based on Standard & Poor's ratings.

23.3 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

23. Financial risk management (continued)

The Group aims to maintain the level of its cash and cash equivalents at an amount in excess of expected cash outflows on financial liabilities (other than trade payables) over the next 60 days. The Group also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables. At 31 March 2018, the expected cash flows from trade and other receivables maturing within two months were £54.0m (2017: £47.2m). This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

In addition to internally generated liquidity, the Group maintains a £18m secured multicurrency revolving credit facility.

Exposure to liquidity risk

Maturity of financial liabilities

The tables below analyse the Group's and Company's financial liabilities, which will be settled on a net basis, into relevant maturity groupings based on the remaining period to the contractual maturity dates at 31 March 2018 and 1 April 2017. The amounts disclosed in the tables are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest repayments.

Group				
31 March 2018	1 year or less	1-2 years	2-5 years	Over 5 years
	£'000	£'000	£'000	£'000
Bank borrowings and other loans	21,622	4,535	18,749	86,542
Finance lease liabilities	61	71	40	-
Trade and other payables	57,326	-	-	-
	<u>79,009</u>	<u>4,606</u>	<u>18,789</u>	<u>86,542</u>
1 April 2017	1 year or less	1-2 years	2-5 years	Over 5 years
	£'000	£'000	£'000	£'000
Bank borrowings and other loans	20,084	4,561	18,627	101,190
Finance lease liabilities	26	24	35	-
Trade and other payables	51,318	-	-	-
	<u>71,428</u>	<u>4,585</u>	<u>18,662</u>	<u>101,190</u>
Company				
31 March 2018	1 year or less	1-2 years	2-5 years	Over 5 years
	£'000	£'000	£'000	£'000
Bank borrowings and other loans	21,622	4,535	18,749	86,542
Finance lease liabilities	42	64	34	-
Trade and other payables	29,460	-	-	-
	<u>51,124</u>	<u>4,599</u>	<u>18,783</u>	<u>86,542</u>
1 April 2017	1 year or less	1-2 years	2-5 years	Over 5 years
	£'000	£'000	£'000	£'000
Bank borrowings and other loans	20,084	4,561	18,627	101,190
Finance lease liabilities	15	15	35	-
Trade and other payables	29,564	-	-	-
	<u>49,663</u>	<u>4,576</u>	<u>18,662</u>	<u>101,190</u>

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

23. Financial risk management (continued)

As disclosed in note 21, the Group has secured bank loans that contain loan covenants. A future breach of covenant may require the Group to repay the loan earlier than indicated in the above table. Under the agreement, the covenants are monitored on a regular basis by the finance department and regularly reported to the Board to ensure compliance with the loan agreement.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

23.4 Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates and interest rates – will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

a) Foreign exchange risk

Foreign currency risk is the risk of financial loss to foreign currency net assets, earnings and cash flows reported in pounds sterling due to movements in exchange rates. The functional currencies of Group companies are primarily Sterling, US dollars, Canadian dollars and Australian dollars.

The Group makes use of forward exchange contracts to manage risk relating to future transactions, in accordance with its risk management policy. The fair value of the forward exchange contracts was £nil (2017: £0.1m). Losses on the forward exchange contracts were £0.1m (2017: £1.0m).

Derivative financial instruments that are measured at fair value are disclosed by level of the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group. In addition, interest on borrowings is denominated in the currency of the borrowing. This provides an economic hedge without derivatives being entered into and as such hedge accounting is not applied in these circumstances.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group's investment in its US subsidiary is hedged by a US denominated loan note (carrying amount: £81.8m (2017: £97.1m)). The loan is designated as a net investment hedge.

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

23. Financial risk management (continued)

The table below details the impact changes in foreign exchange rates would have had on the Group's post-tax profit for the periods ended 31 March 2018 and 1 April 2017 due to the translation of both subsidiary profits from their functional currency into sterling, and also underlying currency transactions and balances within Group companies which are denominated in currencies other than the reporting currency of that Group company. The movements in equity as at 31 March 2018 and 1 April 2017 includes the impact changes in foreign exchange rates would have on the translation of subsidiary net assets, as well as the effect of cash flow currency and net investment hedges.

In each case, it is assumed that the named currency is strengthening or weakening against all other currencies, while all the other currencies remain constant. The percentage foreign currency movement is based on the maximum annual percentage movement against sterling during the previous four years. Results are shown for all currencies where the impact on Group post tax profits would be more than £100,000.

	Impact on operating profit before exceptionals gains/(losses)		Impact on profit after tax gains/(losses)		Impact on equity Increase/(decrease)	
	Strengthening £'000	Weakening £'000	Strengthening £'000	Weakening £'000	Strengthening £'000	Weakening £'000
2018						
US Dollar: 21%	6,356	(4,149)	4,777	(3,100)	14,629	(9,551)
Australian Dollar: 25%	(1,485)	891	(3,656)	2,141	460	(276)
Canadian Dollar 22%	959	(519)	860	(685)	4,176	(2,670)
2017						
US Dollar: 21%	4,365	(2,851)	2,051	(1,195)	9,396	(6,134)
Australian Dollar: 30%	(802)	432	(1,621)	956	1,326	(714)
Canadian Dollar 22%	522	(220)	(221)	222	3,309	(2,115)

b) Interest rate risk

The Group's interest rate risk arises from borrowings and cash deposits. The Group has a policy of monitoring interest rate exposure on a regular basis and structures borrowings in the desired currencies at floating interest rates. No interest rate hedging was in place at 31 March 2018 or 1 April 2017.

24. Provisions

	Group £'000
Balance at 3 April 2016	6,203
Exchange adjustments	781
Provision used during the period	(1,044)
Balance at 1 April 2017	5,940
Exchange adjustments	(595)
Provision used during the period	(713)
Balance at 31 March 2018	4,632

A provision was created on the acquisition of The Wornick Company Inc. for onerous lease liabilities relating to certain property and equipment leases. The provision is expected to be utilised over the remaining term of the leases.

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

25. Deferred income

Group	Government Grants £'000
Balance at 3 April 2016	769
Exchange adjustments	50
Amortisation in the period	(76)
Balance at 1 April 2017	743
Exchange adjustments	29
Amortisation in the period	(44)
Balance at 31 March 2018	728

26. Retirement benefit obligations

The Group pension arrangements are operated through a defined contribution scheme and a Group defined benefit scheme.

Defined contribution pension scheme

The Group and Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Group and Company to the scheme and amounted to £681,000 (2017: £888,000).

Defined benefit scheme

The Group and Company operates a funded defined benefit pension scheme. The final salary scheme is closed to new members and was closed to future accrual on 28 February 2018. The scheme is administered by a single pension fund that is legally separated from the Group. The defined benefit pension scheme exposes the Group to actuarial risks, such as longevity risk, currency risk, interest rate risk and market (investment risk).

The valuation used for the IAS 19 disclosures has been based on the most recent actuarial valuation and updated by an independent qualified actuary to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme at 31 March 2018. Scheme assets are stated at their market value at 31 March 2018.

The scheme is funded by the Group and funding requirements are based on the pension fund's actuarial measurement framework, as set out within the funding policies of the plan. The Group paid normal contributions of £461,000 (2017: £512,000) during the period and special contributions of £520,000 (2017: £nil) due to the phasing of these under the deficit recovery plan agreed with the Trustees of the Scheme. At the period end, contributions of £nil (2017: £34,000) were included in accruals.

Employer's contributions rose from 11.6% to 15.2% of pensionable salaries with effect from 1 June 2013. The Group will continue to make special contributions in line with the recovery plan.

The estimated amounts of contributions expected to be paid to the scheme during the 2019 financial period is £3,040,000.

The principal actuarial assumptions are as follows:		At 31 March 2018	At 1 April 2017
Rate of increase in salaries		n/a	2.50%
Rate of increase in pensions		2.00%	2.00%
Discount rate		2.50%	2.60%
Inflation assumption	- RPI	3.00%	3.10%
	- CPI	2.00%	2.00%

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

26. Retirement benefit obligations (continued)

Demographic assumptions

The specific mortality rates used are based on the SAPS 2 CMI 2017 tables adjusted to allow for the experience of scheme pensioners. The life expectancies underlying the valuation are as follows:

		31 March 2018 years	1 April 2017 years
Current pensioners (at age 65)	Males	20.9	21.1
	Females	22.8	22.9
Future pensioners (at age 65)	Males	22.0	22.1
	Females	24.0	24.1

	31 March 2018 £'000	1 April 2017 £'000
The balance sheet position of the scheme is as follows:		
Fair value of assets	56,017	55,671
Present value of obligations (fully funded)	(72,259)	(71,847)
Net pension liability	<u>(16,242)</u>	<u>(16,176)</u>

	31 March 2018 %	1 April 2017 %
<i>Plan assets as a percentage of total plan assets are as follows:</i>		
Equities	45	45
Bonds	41	41
Property	13	13
Cash	<u>1</u>	<u>1</u>

The scheme's historic investment strategy has been to invest broadly 70% in equity type assets and 30% in bond type assets. This strategy reflects the scheme's liability profile and the trustees' and employer's attitude to risk albeit this remains under regular review.

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

26. Retirement benefit obligations (continued)

Movements in net defined benefit liability

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
	31 March 2018 £'000	1 April 2017 £'000	31 March 2018 £'000	1 April 2017 £'000	31 March 2018 £'000	1 April 2017 £'000
Balance at start of period	(71,847)	(60,171)	55,671	49,105	(16,176)	(11,066)
Included in income statement						
Service cost	(662)	(615)	-	-	(662)	(615)
Curtailment	506	-	-	-	506	-
Interest (cost)/income	(1,841)	(2,132)	1,440	1,743	(401)	(389)
	(1,997)	(2,747)	1,440	1,743	(557)	(1,004)
Included in other comprehensive income						
Actuarial losses arising from:						
- Changes in demographic assumptions	430	3,261	-	-	430	3,261
- Changes in financial assumptions	(1,248)	(15,318)	-	-	(1,248)	(15,318)
- Experience adjustment	842	1,239	-	-	842	1,239
Return on plan assets	-	-	(514)	6,200	(514)	6,200
	24	(10,818)	(514)	6,200	(490)	(4,618)
Other						
Contributions by employees	(19)	(4)	19	4	-	-
Contributions by employer	-	-	981	512	981	512
Benefits paid	1,580	1,893	(1,580)	(1,893)	-	-
	1,561	1,889	(580)	(1,377)	981	512
Balance at end of period	(72,259)	(71,847)	56,017	55,671	(16,242)	(16,176)

Scheme assets include property occupied by the Group with a fair value of £1.4m (2017: £1.4m).

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting period would have increased/(decreased) as a result of a change in the respective assumptions by quarter a percent:

	Group	
	31 March 2018 £000	1 April 2017 £000
Decrease in discount rate	(3,178)	(3,246)
Future salary increases	n/a	344
Increase in inflation (RPI, CPI)	1,248	1,230

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

27. Capital and reserves

Share capital	31 March 2018 £'000	1 April 2017 £'000
Allotted, called up and fully paid 636,548 ordinary shares of £1 each	637	637

Merger reserve

The merger reserve comprises restructuring adjustments relating to the restructuring of the Group in 2007, which utilised the principals of merger accounting.

Revaluation reserve

Where property, plant and equipment is revalued, the cumulative increase in the fair value of the property at the date of revaluation in excess of any previous impairment losses is included in the revaluation reserve.

Capital contribution reserve

The capital contribution reserve is a Company only reserve and comprises intercompany loans due from the Company which have been forgiven by the counterparty.

Translation reserve

The translation reserve comprises all foreign exchange differences arising since 1 June 2014, the transition date to Adopted IFRSs, from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

Retained earnings

Retained earnings represents accumulative profits and losses net of dividends and other distributions.

Dividends

During the period a dividend of £nil (2017: £1,007,000) was recognised in the period.

After the balance sheet date, a dividend of £nil (2017: £nil) has been proposed by the directors.

28. Operating lease commitments

Group	2018 £'000	2017 £'000
Future minimum lease payments under non-cancellable operating leases:		
Within one year	4,832	5,798
From one to five years	14,302	16,907
After five years	14,798	19,185
	33,932	41,890
Company	2018 £'000	2017 £'000
Future minimum lease payments under non-cancellable operating leases:		
Within one year	584	849
From one to five years	2,196	2,136
After five years	2,532	3,122
	5,312	6,107

The Group and Company leases warehouses, factory facilities and office buildings under operating leases. The leases run for periods of up to 10 years with options to extend in place for some leases.

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

29. Capital commitments

	Group		Company	
Group	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Contracted for but not provided	525	882	332	507

30. Parent and ultimate controlling party

The immediate parent and ultimate controlling party of the company is W. A. Baxter & Sons (Holdings) Limited, which is incorporated and registered in Scotland, with its registered office being 12 Charlotte Square, Edinburgh, EH2 4DJ, and represents being the parent of the largest group of undertakings to which the results of the Company any consolidated. Copies of W. A. Baxter & Sons (Holdings) Limited financial statements are available from Companies House.

31. Related party transactions

Group

During the period the Group leased a property from the Baxters Food Group Pensions Scheme. The rent payable by the Group during the period ended 31 March 2018 was £80,000 (2017: £216,000). In addition, property recharges from the Scheme amounted to £nil (2017: £10,000) and other recharges amounted to £611,000 (2017: £528,000). The balance due to the scheme at the period end was £24,000 (2017: £113,000).

At the period end, Baxters Food Group Limited was due £nil (2017: £nil) to The Baxter Family Trust, a shareholder of the Group. During the prior period the full loan of £192,000 was repaid to the Trust. The loan bore interest of 0.75% above the Bank of Scotland base rate and was repayable on demand.

Key management are deemed to be the Executive and Non-Executive Directors and the Executive Board of the Group as together they have the authority and responsibility for controlling Group activities. The compensation paid or payable to key management for employee services is shown below:

	31 March 2018 £'000	1 April 2017 £'000
Emoluments payable to executive and non-executive directors		
Emoluments for qualifying services	1,568	1,825
Post employment benefits	8	30
Emoluments payable to remainder of the executive board		
Emoluments for qualifying services	1,396	1,428
Termination benefits	-	20
Post-employment benefits	55	36
Total emoluments payable to key management	3,027	3,339

Company

At the period end the Company had a non-interest bearing loan of £362,000 (2017: £362,000) outstanding from the parent company. The loan is repayable on demand.

At the end of the period the Company had an outstanding loan of Polish Zloty (PLN) 4,600,000 (2017: PLN 4,600,000) payable by Baxters Poland. The loan bears interest of 8%, PLN 1,940,000 (2017: PLN 1,440,000) of accrued interest was due from Baxters Poland at the end of the period. At the end of the period the trading balance due by the Company to Baxters Poland was £2,314,000 (2017: £2,029,000). All balances are repayable on demand.

At the end of the period the Company had an outstanding loan of C\$7,000,000 (2017: C\$500,000) due to Baxters Canada Inc. The loan bears interests of 1.25% above the Bank of Canada base rate, at the period end accrued interest of C\$108,000 (2017: C\$nil) was outstanding. At the end of the period the trading balance due to the Company by Baxters Canada Inc was £1,957,000 (2017: £974,000). All balances are repayable on demand.

BAXTERS FOOD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 MARCH 2018

31. Related party transactions (continued)

At the end of the period the Company had an outstanding loan of A\$37,574,000 (2017: A\$20,510,000) due from Baxters Foods Australia Pty. A provision of £9,898,000 has been recognised in the period against the loan. The loan bears interest of 0.5% above the Lloyds rate, at the period end accrued interest of A\$4,039,000 (A\$2,715,000) was outstanding. At the end of the period, the trading balance due to the Company was £751,000 (2017: £1,483,000) and is repayable on demand.

At the end of the period the Company had an outstanding loan of A\$2,741,000 (2017: A\$2,741,000) due from Baxters Food Group Properties Pty. The loan bears interest of 0.5% above the Lloyds rate, at the period end accrued interest of A\$576,000 (2017: A\$441,000) was outstanding.

At the end of the period the Company had a loan of US\$115,000,000 (2017: US\$100,000,000) due from Baxters North America Inc. The loan bears interest of 5.75% above LIBOR. At the period end the treasury balance due by the Company to Baxters North America Inc was US\$22,380,000 (2017: US\$5,157,000).

At the end of the period the Company was due £2,325,000 (2017: £497,000) from The Wornick Company for trading balances.

32. Non-principal investments within the group

	Country of registration or incorporation	Shares held		Principal activity
		Class	%	
Baxters North America Inc.	USA	Ordinary	100	Intermediate holding company
The Wornick Holding Company Inc.	USA	Ordinary	100	Intermediate holding company
Baxters of Speyside Ltd	Scotland	Ordinary	100	Dormant
Baxters Foodservice Ltd	Scotland	Ordinary	100	Dormant
Fonds de Cuisine Ltd	Scotland	Ordinary	100	Dormant
Garner's Foods Ltd	England & Wales	Ordinary	100	Dormant
Baxters (Colchester) Ltd	England & Wales	Ordinary	100	Dormant
Audrey Baxter Ltd	Scotland	Ordinary	100	Dormant
Audrey Baxter Signature Ltd	Scotland	Ordinary	100	Dormant
Audrey Baxter Signature Range Ltd	Scotland	Ordinary	100	Dormant
Baxters Ontario Inc	Canada	Ordinary	100	Dormant
Right Away Management Corporation	USA	Ordinary	100	Dormant
The Wornick Company Right Away Division	USA	Ordinary	100	Dormant
The Wornick Company Right Away Division L.P.	USA	Ordinary	100	Dormant