Chaucer Foods Limited

Strategic report, Directors' report and financial statements

Registered number 03168607

31 December 2018

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Chaucer Foods Limited
Company information

Directors
T Malkoski
R Purcell

Auditor
Ernst & Young LLP
24 Marina Court
Hull
HU1 1TJ

Banker
HSBC Bank Plc
33 Park Row
Leeds
West Yorkshire
LS1 4AD

Solicitor
Squire Patton Boggs (UK) LLP
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Registered office
Unit 26, Brighton Street Industrial Estate
Freightliner Road
Hull
East Yorkshire
HU3 4UN

Registered number
03168607

Strategic report

Principal activities

The principal activity of the company is the sale of freeze-dried fruit products.

The business model

Our objectives are to be the leading technology-led ingredients supplier globally and to profitably grow the business, through further development of our strong relationships with major food businesses around the world.

Fulfilling the needs of our customers requires the company to supply products of the highest quality at a competitive price. In order to ensure these requirements, as well as security of supply and high food safety standards, the business is vertically structured and in many cases is able to supply the raw or base material for the finished product from within the company or from an international pre-qualified supply chain.

The company continues to invest in new product developments and innovations that are key in helping to grow the business and expand into new market sectors.

Review of the business

We have identified the above measures that are important to the company's financial performance and operational excellence and to our members, customers, suppliers and employees. The Board considers these in assessing the achievement of the company's strategy:

	2018	2017	KPI calculation notes
	$000	$000	
Turnover	62,187	61,069	As per the profit and loss account
Operating EBITDA	4,920	10,710	P&L Operating profit before exceptional items + Note 3 (depreciation + amortisation)

The directors are pleased to report that total turnover in the year increased by 2%. This was seen to varying degrees in all regions except North America.

Sales to North America were impacted by a reduction in the sales price per kilo, which contributed to the gross margin reduction from 28% to 20%.

In addition to this, an adverse movement in foreign exchange rates and the write off of an intercompany debtor balance also contributed to the reduction in operating EBITDA.

The directors forecast strong growth for 2019, which along with several cost saving initiatives, is expected to increase profitability.

Results and dividends

Profit for the year can be found on page 10. Dividends paid during the year totalled $Nil (2017: $Nil). The directors do not recommend the payment of a final dividend.

Strategic report *(continued)*

Principal risks and uncertainties

Strategic, financial, commercial, operational, social, environmental and ethical risks are all considered as part of the company's controls, which are designed to manage rather than eliminate the risk of failure to achieve business objectives. Therefore they can only provide reasonable, not absolute, assurance against material misstatement or loss.

At present there are no current risks affecting the value of the company, however the specific risks and uncertainties faced by the company, in line with the rest of the food manufacturing sector, are raw material supply, food quality and hygiene, margins, profitability and competition.

In general, principal risks and uncertainties facing the company are broadly grouped as - competitive, legislative, supply and financial instrument risk.

Competitive risks
The company is reliant on certain major multinationals for contracts which are subject to periodic competitive tender, based on financial, quality and performance criteria. To date the business has been successful in securing and retaining a number of these contracts and has invested significantly in quality systems and processes.

Legislative risks
The company operates internationally and needs to comply with food and ingredients standards in other markets.

In the UK and Europe, food ingredients must be manufactured to EU standards. In the United States the Food and Drug Administration lays down compliance standards for all products entering that market. All these standards are subject to continuous revision and any new directive may have a material impact on the ability of the company to manufacture and supply products at a profit. In addition compliance imposes costs and failure to comply with the standards could affect the company's ability to operate. Management have mitigated exposure to this risk through quality control processes and supplier screening.

Outside the above markets, the equivalent standards are subject to individual State legislatures. These standards vary considerably between individual States.

Supply risks

The company is required to source ingredients, the price and availability of which are influenced by numerous market factors. This risk is managed through the company's fruit growing programme, and through the use of forward purchasing contracts. Fruit is purchased around the world, subject to growing seasons, with the supply chain balanced to ensure the business is not exposed to overdependence on one supplier or region.

Financial instrument risks

The company has established a risk and financial management framework whose primary objectives are to protect the company from events that hinder the achievement of the company's performance objectives.

The objectives aim to limit undue counterparty exposure, ensure sufficient working capital exists and monitor the management of risk at a business unit level.

Strategic report *(continued)*

Principal risks and uncertainties *(continued)*

Use of derivatives

The company manages its foreign exchange risk through maintaining as far as possible a balanced portfolio of currencies. Due to the global nature of the company, there is some degree of natural hedging arising from normal trading operations. Forward foreign exchange swaps are arranged where there are recognised imbalances in future currency flows. The company does not engage in foreign currency speculation. The accounting policy for foreign currencies is set out in note 1 to the accounts.

The company uses forward foreign currency contracts to reduce exposure to the variability of foreign exchange rates.

Exposure to price, credit, liquidity and cash flow risk

The company has policies to manage price, credit, liquidity and cash flow risk and the Board discusses credit risk and management on a regular basis.

Price and credit risk are managed by contracts with customers and suppliers. Price risk arises on financial instruments because of changes in, for example, commodity prices or equity prices. Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party failing to discharge an obligation. Company policies are aimed at minimising such losses and require that deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures. Details of the company's debtors are shown in note 14 to the financial statements.

- Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The company aims to mitigate liquidity risk by managing cash generation by its operations and applying cash collection targets throughout the company. The company also manages liquidity risk via revolving credit facilities and long term debt.

- Cash flow risk is managed by use of foreign exchange as explained above. Cash flow risk is the risk of exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability.

- The company also manages liquidity risk via revolving credit facilities and long term debt provided by its ultimate parent company.

Future developments

The markets in which the company operates remain highly competitive with continued price pressures from customers as well as significant upward pressure in raw material costs and other input costs. The company continues to trade in a difficult environment for food manufacturers however the directors remain cautiously optimistic about the future. The company continues with its efforts to further develop and expand the product and customer base of the business.

By order of the board

R Purcell
Director

30 September 2019

Directors' report

The directors present their directors' report and the audited financial statements of the company for the year ended 31 December 2018.

Going concern

The directors confirm that after reviewing existing financial resources and projected cash flow, and considering current and anticipated market conditions, they have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company's ultimate UK parent, Broomco (3554) Limited, has extended its loan facilities to 9th December 2028 and has received a working capital injection from its new parent Nagatanien Holdings Co Limited. Broomco (3554) Limited has committed to give financial support as required to the company. Accordingly, the going concern basis has been adopted in preparing these financial statements.

Research and development

Product improvement and development remains important in order to satisfy customer and market demands and is an integral part of the company's marketing strategy.

Directors

The directors who held office during the year and up to the date of signing the financial statements (unless otherwise stated) were as follows:

T Malkoski
R Purcell (appointed 14 February 2019)
P Frampton (resigned 31 December 2018)

Disclosure of information to auditor

Each person who was a director at the time this report was approved confirms that:

- so far as he is aware, there is no relevant audit information of which the company's auditor is unaware; and
- he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Third party indemnity provisions

The directors are indemnified against any claim first made against them for any wrongful act in their capacity as a director, officer or employee of the company.

Directors' report *(continued)*

Employment of disabled persons

Within the grounds of commercial confidentiality, information is disseminated to all levels of staff about matters that affect the progress of the company and are of interest and concern to them as employees. The Company's policy is to adopt an open management style, thereby encouraging informal consultation at all levels about aspects of the Company's operations. Employment policies are designed to provide equal opportunities irrespective of colour, ethnic or natural origin, nationality, sex, religion, marital or disabled status. Full consideration is given to applications for employment by and the continuing employment, training and career development of disabled people.

Political contributions

Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the year.

Auditor

Pursuant to Section 485 of the Companies Act 2006, Ernst & Young LLP were appointed as auditors of the company on 10 January 2019.

This is report was approved by the board on 30 September 2019 and signed on its behalf

R Purcell
Director

Unit 26, Brighton Street Industrial Estate
Freightliner Road
Hull
East Yorkshire
HU3 4UN
September 2019

Chaucer Foods Limited
Statement of Directors' responsibilities in respect of the Strategic Report, Directors' Report and the Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE CHAUCER FOODS LIMITED

Opinion

We have audited the financial statements of Chaucer Foods Limited for the year ended 31 December 2018 which comprise Profit and loss account and other comprehensive income, Balance sheet, Statement of changes in equity and the related notes 1 to 21, including a summary of significant accounting policies The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the 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, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Ernst & Young LLP

Richard Frostick (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Hull
30 September 2019

Profit and loss account and other comprehensive income
for the year ended 31 December 2018

	Note	2018	2017
		$000	$000
Turnover	2	**62,187**	61,069
Cost of sales		**(50,008)**	(43,638)
Gross profit		**12,179**	17,431
Selling and distribution costs	3	**(1,200)**	(3,206)
Administrative expenses	3	**(6,190)**	(4,692)
Operating profit	3	**4,789**	9,533
Analysis of operating profit:		**4,789**	10,615
Operating profit before Administrative expenses – exceptional items (net)			
Administrative expenses – exceptional items (net)	3	**-**	(1,082)
		4,789	9,533
Interest receivable and similar income	6	**452**	515
Interest payable and similar charges	7	**(66)**	(35)
Profit on ordinary activities before taxation		**5,175**	10,013
Tax on profit on ordinary activities	8	**(682)**	(1,352)
Profit for the financial year		**4,493**	8,661

Other comprehensive income		
Profit for the financial year	**4,493**	8,661
Foreign currency translation differences	**(265)**	(283)
Other comprehensive loss for the year, net of income tax	**(265)**	(283)
Total comprehensive income for the year	**4,228**	8,378

The notes on pages 13 to 32 form an integral part of these financial statements.

Balance sheet
at 31 December 2018

	Note	2018	2018	2017	2017
		$000	$000	$000	$000
Fixed assets					
Intangible assets	9		167		255
Tangible assets	10		16		44
Investments	11		7,596		7,635
			7,779		7,934
Current assets					
Stocks	13	12,862		7,825	
Debtors	14	38,643		34,481	
Cash at bank and in hand		171		2,372	
		51,676		44,678	
Creditors amounts falling due within one year	15	(21,519)		(18,989)	
Net current assets			30,157		25,689
Total assets less current liabilities			37,936		33,623
Creditors amounts falling due after one year	15		(85)		-
Net assets			37,851		33,623
Capital and reserves					
Called up share capital	17		1,019		1,019
Share premium	17		11,163		11,163
Profit and loss account	17		25,669		21,441
Total equity			37,851		33,623

The notes on pages 13 to 32 form an integral part of these financial statements.

These financial statements were approved by the board of directors on 30 September 2019 and were signed on its behalf by:

R Purcell
Director

Company registered number: 03168607

Statement of changes in equity

	Share capital	Share premium	Profit and loss account	Total equity
	$000	$000	$000	$000
Balance at 1 January 2017	**1,019**	**11,163**	**13,063**	**25,245**
Profit for the year	-	-	8,661	8,661
Other comprehensive income	-	-	(283)	(283)
Total comprehensive income for the year	-	-	8,378	8,378
Balance at 31 December 2017 and 1 January 2018	**1,019**	**11,163**	**21,441**	**33,623**
Profit for the year	-	-	4,493	4,509
Other comprehensive income	-	-	(265)	(265)
Total comprehensive income for the year	-	-	4,228	4,244
Balance at 31 December 2018	**1,019**	**11,163**	**25,669**	**37,867**

The notes on pages 13 to 32 form an integral part of these financial statements.

Notes
(forming part of the financial statements)

1 Accounting policies

1.1 Basis of preparation

Chaucer Foods Limited (the "Company") is a company limited by shares and incorporated and domiciled in the UK. The Company's registered office address is Unit 26, Brighton Street Industrial Estate, Freightliner Road, Hull, Yorkshire, HU3 4UN.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102")*. The presentation currency of these financial statements is the US Dollar as the majority of the Company's turnover, cashflow and borrowings are in US Dollars. All amounts in the financial statements have been rounded to the nearest $1,000.

The Company's ultimate UK parent undertaking, Broomco (3554) Limited, includes the Company in its consolidated financial statements. The consolidated financial statements of Broomco (3554) Limited are prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and are available to the public and may be obtained from Unit 26, Brighton Street Industrial Estate, Freightliner Road, Hull, Yorkshire, HU3 4UN. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Broomco (3554) Limited include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 *Share Based Payments;* and,
- The disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

Notes *(continued)*

1 Accounting policies *(continued)*

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

The financial information presented covers the years ended 31 December 2017 and 31 December 2016.

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 20.

1.2 Measurement convention

The financial information has been prepared on the historical cost basis except that derivative financial instruments are stated at their fair value.

1.3 Going concern

The Company has access to funding from its ultimate parent and the wider Chaucer group. The directors consider that the existing facilities remain sufficient for the working capital needs of the business and that they will continue to be able to make capital repayments as they fall due.

After making enquiries the Directors have a reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the financial information.

The Company has received confirmation from its parent company that it will provide financial support for the foreseeable future and at least the next 12 months.

1.4 Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Company entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account except for differences arising on the retranslation of items which are fair valued with changes taken to other comprehensive income, which are recognised in other comprehensive income.

The financial statements are presented in US Dollars which is the Company's functional currency and have been rounded to the nearest thousand.

Notes *(continued)*

1 Accounting policies *(continued)*

1.5 Classification of financial instruments issued by the Company

In accordance with FRS 102.22, financial instruments issued by the Company (or Company, as the case may be) are treated as equity only to the extent that they meet the following two conditions:

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

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

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

1.6 Basic financial instruments

Trade and other debtors

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

Trade and other creditors

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest-bearing borrowings classified as basic financial instruments

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

Investments in subsidiaries

These are separate financial statements of the company. Investments in subsidiaries are carried at cost less impairment in accordance with FRS 102.14.8.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

1.7 Other financial instruments

Financial instruments not considered to be Basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except in relation to investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably are be measured at cost less impairment.

The Company does not apply hedge accounting and has not applied hedge accounting retrospectively in these financial statements relating to hedges that were no longer in place at the transition date, in accordance with the exemption from retrospective application of hedge accounting specified by FRS102.35.10.(t).ii.

Notes *(continued)*

1 Accounting policies *(continued)*

1.8 Tangible fixed assets

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

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

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described at 1.16 below.

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

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

- freehold buildings between 20 and 50 years
- leasehold buildings over the life of the lease
- plant and equipment between 5 and 15 years
- fixtures and fittings between 5 and 15 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

1.9 Business combinations

Business combinations are accounted for using the purchase method as at the acquisition date, which is the date on which control is transferred to the company.

At the acquisition date, the company recognises goodwill at the acquisition date as:

- the fair value of the consideration (excluding contingent consideration) transferred; plus
- estimated amount of contingent consideration (see below); plus
- the fair value of the equity instruments issued; plus
- directly attributable transaction costs; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities and contingent liabilities assumed.

When the excess is negative, this is recognised and separately disclosed within reserves as the excess over cost of an acquired interest in a subsidiary (negative goodwill).

Consideration which is contingent on future events is recognised based on the estimated amount if the contingent consideration is probable and can be measured reliably. Any subsequent changes to the amount are treated as an adjustment to the cost of the acquisition.

Notes *(continued)*

1 Accounting policies *(continued)*

1.10 Intangible assets, goodwill and negative goodwill

Goodwill

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses. Goodwill is allocated to cash-generating units or company of cash-generating units that are expected to benefit from the synergies of the business combination from which it arose.

Research and development

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

Development activities involve a plan or design for the production of new or substantially improved products or processes. Expenditure on development activities will be capitalised if: the product or process is technically and commercially feasible; the Company intends, has the technical ability and has sufficient resources to complete development; future economic benefits are probable and; the Company can measure reliably the expenditure attributable to the intangible asset during its development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Other development expenditure is recognised in the income statement as an expense as incurred.

Other intangible assets

Expenditure on internally generated Goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Trade names - 3 to 12 years
- Customer relationships - 3 to 12 years
- Other purchased intellectual property - 3 to 12 years

Goodwill is amortised on a straight line basis over its useful life. Goodwill has no residual value. The finite useful life of goodwill is estimated to be 20 years.

The company reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Goodwill and other intangible assets are tested for impairment in accordance with FRS102 Section 27 'Impairment of Assets' when there is an indication that goodwill or an intangible asset may be impaired.

1.11 Stocks

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.12 Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows. The effect of discounting is not material. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units ("CGU") that are expected to benefit from the synergies of the combination. For the purpose of goodwill impairment testing, if goodwill cannot be allocated to individual CGUs or groups of CGUs, the company tests the impairment of goodwill by determining the recoverable amount of the entity in its entirety, including the integrated acquired operations.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. No impairments have been recognised in the periods presented.

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

1.13 Employee benefits

Defined contribution plans

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

Termination benefits

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.14 Provisions

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

1.15 Turnover

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

1.16 Expenses

Operating lease payments

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

Finance lease payments

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

Exceptional items

Items which are significant by virtue of their size or nature and which are considered to be non-recurring are classified as exceptional operating expenses. Such items, which include for instance the costs of closing or opening factories, costs of significant restructurings and profits or losses or impairments made, are included within the appropriate consolidated Profit or Loss category but are highlighted separately in the notes to the financial statements. Exceptional operating items are excluded from the profit measures used by the Board to monitor and measure the underlying performance of the Company.

Government and other forms of grant

Government and other grants from third parties are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as a reduction in the costs incurred, on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed. Where the grant relates to an asset, it is recognised as a reduction in the initial cost of the related asset.

Interest receivable and Interest payable

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.17 Taxation

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

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

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

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

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date.

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

Notes *(continued)*

2 Turnover

Geographical analysis of turnover:	**Year ended 31 December 2018 $000**	Year ended 31 December 2017 $000
UK	**3,234**	2,974
Europe	**11,266**	8,685
North America	**44,036**	46,104
Rest of World	**3,651**	3,306
	62,187	61,069

3 Expenses and auditor's remuneration

Included in profit/loss are the following:

	Year ended 31 December 2018 $000	Year ended 31 December 2017 $000
Depreciation of tangible fixed assets	**32**	29
Amortisation of intangibles	**99**	66
Management charge - net income	**(1,128)**	(597)

Auditor's remuneration:

Audit costs are borne by a fellow group company.

Notes *(continued)*

4 Staff numbers and costs

The average number of persons employed (full time equivalents) by the Company (including directors) during the period, analysed by category, was as follows:

	Year ended 31 December 2018 No.	Year ended 31 December 2017 No.
Sales	8	6
Administration	22	18
	30	24

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2018 $000	Year ended 31 December 2017 $000
Wages and salaries	3,295	2,087
Social security costs	340	238
Contributions to defined contribution plans	86	83
	3,721	2,408

5 Directors' remuneration

	2018 $000	2017 $000
Directors' emoluments	785	577
Company contributions to money purchase pension plans	43	13
Other non-monetary benefits	40	13

The highest paid director received emoluments of $540,000 (2017: $355,000), pension contributions of $26,000 (2017: $13,000) and non-monetary benefits of $38,000 (2017: $6,000).

	Number of directors 2018	2017
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	2	1

Notes *(continued)*

6 Interest receivable and similar income

	Year ended 31 December 2018 $000	Year ended 31 December 2017 $000
Interest income	452	515

7 Interest payable and similar charges

	Year ended 31 December 2018 $000	Year ended 31 December 2017 $000
Finance expense		
Total interest expense on financial liabilities measured at amortised cost	(66)	(35)
Interest on borrowings from other group entities		
Net foreign exchange gain		
Total finance expense	(66)	(35)

8 Taxation

Total tax expense recognised in the profit and loss account, other comprehensive income and equity

	Year ended 31 December 2018 $000	Year ended 31 December 2017 $000
Current tax expense		
Current year – UK tax	(703)	(1,501)
Other		9
Adjustments for prior periods	37	137
Current tax expense	(666)	(1,355)
Deferred tax expense		
Origination and reversal of temporary differences	(10)	(56)
Deferred tax rate change impact	-	-
Adjustments for prior periods	(6)	59
Deferred tax expense	(16)	3
Total tax expense on continuing operations	(682)	(1,352)

Notes *(continued))*

8 Taxation *(continued)*

The Budget on 8 July 2015 announced changes in the main UK corporation tax rate. The rate (currently 20%) will reduce to 19% from 1 April 2017 and to 18% from 1 April 2020.

The reduction in tax rates was included in the 2015-2016 Finance Act which was substantively enacted for the purposes of IFRS and UK GAAP (i.e., having completed its Commons stages) on 26 October 2015.

The Budget on 16 March 2016 announced further changes in the main UK corporation tax rate. The effective rate of 18% from 1 April 2020 was to be further reduced to 17%.

This further reduction in tax rates was included in the 2016 Finance Act which was substantively enacted for the purposes of IFRS and UK GAAP (i.e., having completed its Commons stages) on 6 September 2016.

Reconciliation of effective tax rate

	Year ended 31 December 2018 $000	Year ended 31 December 2017 $000
Profit for the period	**4,493**	8,661
Total tax expense	**682**	1,352
Profit excluding taxation	**5,175**	10,013
Standard rate of UK corporation tax	**19.00%**	19.25%
Tax using the UK corporation tax rate for the relevant period	**983**	1,927
Non-deductible expenses	**79**	41
Fixed asset differences	**-**	1
Group relief claimed	**(381)**	(432)
(Over)/under provided in prior periods	**(38)**	(196)
Difference due to tax rate of deferred tax	**(1)**	(8)
Overseas tax rate differences and foreign exchange	**40**	19
Total tax expense on continuing operations	**682**	1,352

Notes *(continued)*

9 Intangible assets

	Intellectual property $000
Cost	
Balance at 1 January 2017	305
Additions	208
Balance at 31 December 2017	513
Additions	26
Effect on movements in foreign exchange	(13)
Balance at 31 December 2018	**526**
Amortisation and impairment	
Balance at 1 January 2017	192
Amortisation	66
Balance at 31 December 2017	258
Amortisation	103
Effect on movements in foreign exchange	(2)
Balance at 31 December 2018	**359**
Net book value as at 31 December 2018	**167**
Net book value as at 31 December 2017	255
Net book value as at 1 January 2017	113

Notes *(continued)*

10 Tangible fixed assets

	Plant and equipment $000
Cost	
Balance at 1 January 2017	163
Additions	24
Effect of movements in foreign exchange	13
Balance at 31 December 2017 & 1 January 2018	200
Additions	-
Effect of movements in foreign exchange	(10)
Balance at 31 December 2018	**190**
Depreciation and impairment	
Balance at 1 January 2017	117
Depreciation charge for the period	29
Effect of movements in foreign exchange	10
Balance at 31 December 2017 & 1 January 2018	156
Depreciation charge for the period	27
Effect of movements in foreign exchange	(9)
Balance at 31 December 2018	**174**
Net book value as at 31 December 2018	**16**
Net book value as at 31 December 2017	44
Net book value as at 1 January 2017	46

Notes *(continued)*

11 Fixed asset investments

	Investments in subsidiary undertakings $000
At 1 January 2017	7,579
Effect of movement in foreign exchange	56
Balance at 31 December 2017 and 1 January 2018	7,635
Effect of movement in foreign exchange	(39)
Balance at 31 December 2018	**7,596**

The Company has the following investments in subsidiaries:

Subsidiaries	Country of incorporation	Registered No.	Registered Address	Year-end	Class of Shares held	Ownership
Direct investments:						
Chaucer Foods Inc	USA	75-3064374	2238 Yew Street Forest Grove, Oregon 97116	31 Dec	Ordinary	100%
Chaucer QALICB Inc	USA	975155-98	2238 Yew Street Forest Grove, Oregon 97116	31 Dec	Ordinary	100%
Chaucer Foods SpA	Chile	76.092.168-8	Av. Condell 376, Santiago	31 Dec	Ordinary	100%
Chaucer Foods SAS	France	320050768	110 rue de la Perrière 49260 saint Cyr en Bourg	31 Dec	Ordinary	100%
Indirect investments:						
Chaucer Leverage Lender Inc	USA	974991-99	2238 Yew Street Forest Grove, Oregon 97116	31 Dec	Ordinary	100%
Crunchies Natural Food Company LLC	USA	5619874	23586 Calabasas Rd. Ste 202, Calabasas, CA 91302-1322	31 Dec	Ordinary	100%

12 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	At 31 December 2018 $000	At 31 December 2017 $000
Assets		
Property, plant and equipment	**16**	32

Notes *(continued)*

12 Deferred tax assets and liabilities *(continued)*

Deferred tax assets have been calculated using a deferred tax rate of 17% (31 December 2017: 17%).

Movement in deferred tax during the year	At 1 January 2018 $000	Recognised in income $000	At 31 December 2018 $000
Property, plant and equipment	32	(16)	16

	At 1 January 2017 $000	Recognised in income $000	At 31 December 2017 $000
Property, plant and equipment	29	3	32

13 Stocks

	At 31 December 2018 $000	At 31 December 2017 $000
Raw materials and consumables	4,527	2,544
Finished goods	8,335	5,281
	12,862	7,825

Raw materials, consumables and changes in finished goods recognised as cost of sales in the period amounted to $50,402,000 (year ended 31 December 2017: $38,477,000). The write-down of inventories to net realisable value amounted to $12,000 (31 December 2017: $nil).

Notes *(continued)*

14 Debtors

	At 31 December 2018 $000	At 31 December 2017 $000
Due within one year		
Trade debtors	**4,000**	4,202
Amounts owed by group undertakings	**33,556**	29,788
Other debtors	**1,071**	459
Prepayments	**-**	-
Deferred tax assets	**16**	32
	38,643	34,481

15 Creditors

	At 31 December 2018 $000	At 31 December 2017 $000
Due within one year		
Trade creditors	**7,397**	4,391
Amounts owed to group undertakings	**12,172**	13,234
Other creditors	**-**	400
Accruals and deferred income	**893**	305
Financial Instruments	**804**	-
Corporation Tax	**253**	659
Bank overdraft	**-**	-
	21,519	18,989

	At 31 December 2018 $000	At 31 December 2017 $000
Due after one year		
Financial Instruments	**85**	-
	85	-

Notes *(continued)*

16 Financial instruments

Financial risk management

Foreign Exchange Risk

The Bread CGU is predominately a UK business with revenues and costs in sterling (including the purchase of flour and Palm Oil which are also contracted in sterling).

In excess of 50% of the revenues of the Freeze Dried business are denominated in dollars with the remainder mainly in Euros. The Group currently manufactures Freeze Dried products in France, China and The US and purchases raw materials in Renminbi, Dollars and Euros. Generally, therefore, the Group is long on dollars and short on Renminbi, Euros and Sterling (to cover UK based Freeze Dried and central costs). The consequence of this is that the Group is exposed to the movement in foreign currency rates of Renminbi, Euros and Sterling against the dollar and therefore uses forward foreign exchange contracts and options to manage these exposures.

The majority of the Group's production costs are denominated in US Dollars. The Group endeavours to obtain as much of its income as possible in US Dollars. The Group's policy is to manage foreign currency cash receipts and payments expected from transactions over the following twelve months entering into forward contracts or options to fulfil any shortfall. As explained in note 1.8, the Group does not apply hedge accounting.

Foreign exchange forward contracts in place at 31 December 2017 are summarised in the table below. There were no foreign exchange forward contracts in place at 31 December 2016.

	Sell currency	Buy currency	Currency amount	Principal amount	Average rate	Maturity
At 31 December 2018						
Forward contract	USD	CNY	CNY 29,090,000	$4,4470,000	6.508	Jan 19 to Jun 20
Forward contract	USD	GBP	GBP 6,652,000	$9,132,000	0.728	Jan 19 to Jun 20

Notes *(continued)*

17 Capital and reserves

Share capital	At 31 December 2018 Number	At 31 December 2017 Number
Allotted, called up and fully paid:		
Ordinary shares of £1.00 each	**441,153**	441,153
Ordinary Class 2 shares of £1.00 each	**217,900**	217,900
Preference shares of £0.01 each	**2,281,064**	2,281,064
	2,940,117	2,940,117

Share capital	At 31 December 2018 $000	At 31 December 2017 $000
Allotted, called up and fully paid:		
Ordinary shares of £1.00 each	647	647
Ordinary Class 2 shares of £1.00 each	337	337
Preference shares of £0.01 each	35	35
	1,019	1,019

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value.
Profit and loss account	Cumulative net gains and losses recognised in the consolidated income statement.

18 Commitments

Capital commitments

There were no capital commitments at 31 December 2018 or 31 December 2017.

19 Related parties

As a 100% owned subsidiary of Broomco (3554) Limited, the Company qualifies for exemption from disclosing transactions with other group companies.

20 Ultimate parent company and parent of larger group

The Company is a subsidiary undertaking of Pilgrim Food Holdings Limited. The ultimate controlling party is Nagatanien Co. Limited, a company incorporated in Japan. The largest group in which the results of the Company are consolidated is that headed by Nagatanien Co. Limited, a company incorporated in Japan. The smallest group in which the results of the company are consolidated is that headed by Broomco (3554) Limited, incorporated in the United Kingdom. No other group financial statements include the results of the Company. The consolidated financial statements of Nagatanien Co. Limited are available to the public and may be obtained from 2-36-1, Nishi-Shimbashi, Minato-ku, Tokyo. The consolidated financial statements of Broomco (3554) Limited are available to the public and may be obtained from Unit 26, Brighton Street Industrial Estate, Freightliner Road, Hull, Yorkshire, HU3 4UN.

Notes *(continued)*

21 Accounting estimates and judgements

The preparation of financial statements in conformity with FRS102 requires management to make judgements, estimates and assumptions concerning the future, that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These judgements are based on historical experience and management's best knowledge at the time and the actual results may ultimately differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The estimates and assumptions that have significant risk of causing a material adjustment to the carrying value of assets and liabilities are discussed below.

Provisions

Provisions are based on historical experience and management's best knowledge at the time and are reviewed at each balance sheet date. The actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

Impairment of Intangible Assets

Determining whether intangibles are impaired requires an estimation of the value in use of the cash-generating units to which intangible assets have been allocated. The value in use calculation requires estimation of future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The Company estimates the recoverable amounts based on historical experience of margin, volumes and cost structure and expectations of future events. The Company's weighted average cost of capital takes account of current market conditions as well as risks specific to the entity and this has been applied as a pre-tax discount factor to obtain a current value. The weighted average cost of capital is impacted by estimates of interest rates, equity returns and market specific risks.

Determination of useful lives, residual values and carrying values of property, plant and equipment

Depreciation is provided so as to write down the assets to their residual values over their estimated useful lives as set out in the accounting policies for property, plant and equipment. The selection of these residual values and estimated lives required the exercise of judgement.

The Company is required to assess whether there is indication of impairment to the carrying value of assets. In making that assessment, judgements are made in estimating value in use. The managers consider that the individual carrying values of operating assets are supportable either by value in use or market values.

Carrying value of inventories

Management review the market value of and demand for its inventories on a periodic basis to ensure inventory is recorded in the financial statements at the lower of cost and net realisable value. Any provision for impairment is recorded against the carrying value of inventories. Management use their knowledge of market conditions to assess future demand for the Company's products and achievable selling prices.

Assumptions relating to tax

The Company recognises expected assets for tax based on an estimation of the likely taxes receivable, which requires significant judgement as to the ultimate tax determination of certain items. Where the actual asset arising from these items differs from these estimates, such differences will have an impact on income tax and deferred tax assets in the period when such determination is made.