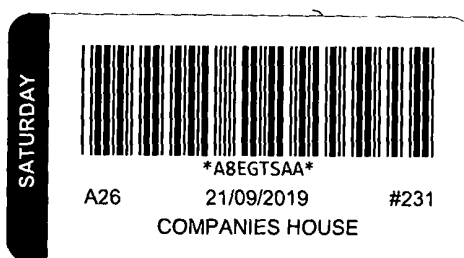


Samworth Brothers Limited

**Annual report and financial
statements**

Registered number 03116767

29 December 2018



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Directors and officers

Directors

F Healy
MC Samworth
SC Bailey
MA Kilby
P Davey
SJP Wookey

Company secretary

TJ Barker ACA

Independent auditors

KPMG LLP Chartered Accountants
St Nicholas House
31 Park Row
Nottingham
NG1 6FQ

Bankers

HSBC Bank plc
130 New Street
Birmingham

National Westminster Bank PLC
Pynes Hill
Exeter
Devon

Lloyds Bank Commercial Banking
125 Colmore Row
Birmingham
B1 1BZ

Registered office

Chetwode House,
1 Samworth Way
Melton Mowbray
Leicestershire
LE13 1GA

Registered number

03116767 - England

Directors' report

The Directors present their annual report and the audited consolidated financial statements of the Company for the 52 week period ended 29 December 2018, referred to as 2018 and 'year' throughout the report, with '2017' referring to the 52 week period ended 30 December 2017.

Principal activities

The principal activity of the Company is the manufacture and distribution of high quality, value added food products. There has been no change in activities during the year. The Company has continued to invest in capital to strengthen our reputation for providing high quality product and to position the business to better service our customers in a dynamic and challenging market.

Dividend

The Directors recommended that no final dividend per ordinary share be paid (2017: *£nil*); interim dividends amounting to £7.0 million (2017: *£4.9 million*) have been paid at £1,269.91 per ordinary share (2017: *£886.36*).

Directors

The directors who held office during the year or to the date of this report were as follows:

FA Healy	(appointed 8 January 2018)
MC Samworth	
SC Bailey	(appointed 6 August 2018)
R Armitage	(resigned 6 April 2018)
AM Barker	(resigned 29 June 2018)
I Fletcher	(resigned 31 December 2018)
MA Kilby	
P Davey	
R Marris	(resigned 31 December 2018)
SJP Wookey	(appointed 7 January 2019)

Directors' indemnities

The Company maintains liability insurance for its Directors and officers which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006.

Political and charitable contributions

Charitable donations amounted to £207,000 (2017: *£226,000*), principally to local charities serving the communities in which the Company operates. The Company made no political donations or incurred any political expenditure during the year.

Directors' report *(continued)*

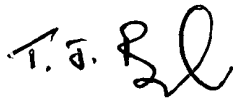
Disclosure of information to auditor

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

Auditor

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

By order of the board



TJ Barker
Secretary

Chetwode House
1 Samworth Way
Melton Mowbray
Leicestershire
LE13 1GA

17 June 2019

Strategic report

Objectives

The Company's long term objective is to grow profitably in order to support continued investment, both organically and by acquisition. In pursuing this objective, the Company intends to maintain sound financial management and avoid excessive risks.

Business review and future outlook

The Company is a key supplier of quality chilled foods to the major food retailers and convenience outlets in the United Kingdom, priding itself on both the quality of its products and customer service provided. The food sector remains highly competitive as consumer eating habits have continued to evolve. This has resulted in a reduction in sales volumes across a number of our core categories, but has created opportunities in others, particularly the convenience and Food-To-Go categories that remain in high growth.

The Group has experienced a challenging year, recording a profit before tax of £0.8 million (*2017: profit of £25.3 million*). The profit for the year includes non-recurring costs of £18.2 million; excluding non-recurring items the Company has recorded a profit before tax of £19.0 million. The Company is in a transitional period as we re-position our business for a return to profitable growth. We remain well placed to exploit the high growth Food-To-Go sector with the acquisition of Manton Wood Limited from the 2 Sisters Food Group on 26 January 2019, financed through a combination of cash reserves and the introduction of a revolving credit facility with a club of banks. Other categories, notably desserts and meals, remain challenging with material cost inflation and changing consumer behaviours contributing to a fall in profitability. On 23 January 2019 a formal consultation commenced with employees of Kensey Foods, a division of Samworth Brothers operating in the desserts category, regarding the potential closure of this business. On 16 May 2019 the Company entered into an agreement to sell the trade and assets of Blueberry Foods, a division of Samworth Brothers Limited.

The Directors use sales and gross profit as key performance indicators ("KPIs") to monitor the business. Sales for the year are £1,004 million, a reduction of 1.6% on the prior year. Gross profit margin has fallen from 17.8% to 17.1% during the year which is a result of raw material cost inflation and a change to product mix. The Directors will maintain the quality and service levels along with investment in insight and innovation for our customers. This remains fundamental to our ability to continue to grow sales.

Tangible and intangible capital expenditure was £32.4 million (*2017: £56.5 million*). The Directors continue to invest in capital expenditure to ensure the business improves its manufacturing efficiency and maintains the quality of the products it produces for its customers.

At 29 December 2018 the Company maintained a healthy cash at bank and in hand balance of £43.8 million which is an increase from £18.9 million in the prior year. The improved cash position has been supported by a significant improvement in working capital during the year.

The Directors monitor staff numbers as a KPI. Average staff numbers were 8,798 (*2017: 8,803*) in the year. As a business, we look to engage our staff with our culture through investment in development and training to help our staff realise their full potential. This allows the business to maintain high labour stability that is so important in producing our quality products together with providing excellent customer service.

Product innovation and recipe development are fundamental to successfully developing and growing the business and the Company invests heavily in its development kitchens, chefs and technical staff to ensure we provide the best fresh and exciting ideas for all our customers.

The market place continues to be challenging and the circumstances providing Brexit does create uncertainty. The Company has established a cross functional team to consider all eventualities and enable us to adapt to what will undoubtedly be a period of political and economic uncertainty. The Directors remain cautious but optimistic with the developments for 2019.

On 16 May 2019 The Company entered into an agreement to sell the trade and assets of Blueberry Foods, a division of Samworth Brothers Limited, for an initial consideration of £17.4m.

Strategic report *(continued)*

Staff involvement

The Company places considerable value on the involvement of its staff and has continued its policy of communication, consultation and involvement. Information is provided to staff on matters which concern them and staff are consulted to obtain their views on matters which affect their interests. A quarterly magazine, "The Samworth Standard", is distributed to all staff and includes information on the Company developments, staff involvement and their achievements.

Employment policies

The Company is committed to providing equal opportunities to all individuals within its business, through recruitment, training and career development. The Company has continued the policy regarding the employment of disabled persons. Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and that appropriate support and training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other members of staff.

Financial risk management

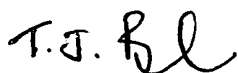
The Company's activities expose it to a number of financial risks including price risk, credit risk, cash flow risk and liquidity risk. The Company's principal financial assets are bank balances and cash, trade and other debtors. The nature of the industry means the working capital cycle is short. The Company's key customers are blue chip retail companies and therefore customer credit risk is considered low. The Company is also exposed to foreign exchange risk. This risk is addressed through the use of forward contracts to give certainty around future cash outflows. The amount presented in the balance sheet in respect of trade debtors and other debtors is net of allowance for doubtful debtors.

The credit risk on liquid funds is regularly assessed by the Board considering the credit risk of counterparties. The Company is exposed to commodity price risks, but manages its exposure on a practical and cost benefit basis.

The Board has overall responsibility for identifying, evaluating and managing major business risks facing the Company. It regularly reviews the business risk system operated by the divisions of the business. The system reviews all operating divisions' assessments of business risks exposure and control, including compliance assessments, and determines agreed business actions to manage and limit risks.

Dated: 17 June 2019

By order of the board



T J Barker ACA

Company Secretary

Chetwode House, 1 Samworth Way, Melton Mowbray, LE13 1GA

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

The directors are responsible for preparing the Directors' Report, the Strategic 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 members of Samworth Brothers Limited

Opinion

We have audited the financial statements of Samworth Brothers Limited ("the company") for the period ended 29 December 2018 which comprise profit and loss account and statement of other comprehensive income, the balance sheet, statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 29 December 2018 and of its loss for the period then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

The impact of uncertainties due to Britain exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

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

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

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



Independent auditor's report to the members of Samworth Brothers Limited

(continued)

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

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

Auditor's responsibilities

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

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

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

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

Ian Borley (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
St Nicholas House
Park Row
Nottingham
NG1 6FQ

Date 17 June 2019.

Profit and loss account and statement of other comprehensive income
for the year ended 29 December 2018

	Note	2018			2017
		Ordinary trading £000	Non-recurring costs £000	Total £000	Ordinary trading £000
Turnover	2	1,003,979	-	1,003,979	1,020,423
Cost of sales		(832,449)	-	(832,449)	(838,418)
Gross profit		171,530	-	171,530	182,005
Selling and distribution costs		(68,469)	-	(68,469)	(67,259)
Administrative expenses	4	(82,346)	(18,201)	(100,547)	(84,658)
Other operating income		1,085	-	1,085	-
Operating profit		21,800	(18,201)	3,599	30,088
Other interest receivable and similar income	7	238	-	238	141
Interest payable and similar expenses	8	(3,054)	-	(3,054)	(4,956)
Profit before taxation		18,984	(18,201)	783	25,273
Tax on profit	9	(4,383)	2,990	(1,393)	(4,898)
Profit/(loss) for the financial year		14,601	(15,211)	(610)	20,375
Other comprehensive income					
			Note		
Actuarial gains			22	13,429	78,187
Income tax on other comprehensive income				(2,283)	(13,292)
Other comprehensive income for the year, net of income tax				11,146	64,895
Total comprehensive income for the year				10,536	85,270

All the results in both the current and prior year relate to continuing operations.

Balance sheet
at 29 December 2018

	Note	2018	2017
		£000	£000
Fixed assets			
Intangible fixed assets	10	14,435	11,431
Tangible assets	11	190,734	209,443
Other investments	12	523	523
Investments in subsidiaries	12	13,042	13,042
Investment property	13	7,000	5,575
		<u>225,734</u>	<u>240,014</u>
Current assets			
Stocks	14	22,704	25,845
Debtors	15	191,082	193,353
Cash at bank and in hand		43,836	18,860
		<u>257,622</u>	<u>238,058</u>
Creditors: amounts falling due within one year	16	<u>(149,873)</u>	<u>(133,502)</u>
Net current assets		<u>107,749</u>	<u>104,556</u>
Total assets less current liabilities		<u>333,483</u>	<u>344,570</u>
Creditors: amounts falling due after more than one year	17	(7,606)	(7,423)
Accruals and deferred income	19	(909)	(1,001)
Provisions for liabilities			
Other provisions	21	(2,379)	(4,250)
Pensions and similar obligations	22	(97,183)	(109,997)
		<u>(108,077)</u>	<u>(122,671)</u>
Net assets		<u>225,406</u>	<u>221,899</u>
Capital and reserves			
Called up share capital	23	5	5
Share premium account		1,421	1,421
Profit and loss account		223,980	220,473
Total shareholders' funds		<u>225,406</u>	<u>221,899</u>

These financial statements were approved by the board of directors on 17 June 2019 and were signed on its behalf by:


SE Bailey
Director

Company registered number: 03116767

Statement of changes in equity

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total Equity £000
Balance at 1 January 2017	5	1,421	140,109	141,535
Total comprehensive income for the period				
Profit	-	-	20,375	20,375
<i>Other comprehensive income</i>				
Actuarial gain	-	-	78,187	78,187
Income tax on other comprehensive income	-	-	(13,292)	(13,292)
Total comprehensive income for the period	-	-	85,270	85,270
Transactions with owners, recorded directly in equity				
Dividends	-	-	(4,906)	(4,906)
Total distributions to owners	-	-	(4,906)	(4,906)
Balance at 30 December 2017	5	1,421	220,473	221,899

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total Equity £000
Balance at 31 December 2017	5	1,421	220,473	221,899
Total comprehensive income for the period				
Loss	-	-	(610)	(610)
<i>Other comprehensive income</i>				
Actuarial gain	-	-	13,429	13,429
Income tax on other comprehensive income	-	-	(2,283)	(2,283)
Total comprehensive income for the period	-	-	10,536	10,536
Transactions with owners, recorded directly in equity				
Dividends	-	-	(7,029)	(7,029)
Total distributions to owners	-	-	(7,029)	(7,029)
Balance at 29 December 2018	5	1,421	223,980	225,406

Notes

(forming part of the financial statements)

1 Accounting policies

Samworth Brothers Limited (the 'Company') is a Company limited by shares and incorporated and domiciled in the UK. The registered number is 03116767 and the registered address is Chetwode House, 1 Samworth Way, Melton Mowbray, Leicestershire, LE13 1GA.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

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 Sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

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.

The Company's ultimate parent undertaking, Samworth Brothers (Holdings) Limited, includes the Company in its consolidated financial statements. The consolidated financial statements of Samworth Brothers (Holdings) Limited are prepared in accordance with FRS102 and are available to the public and may be obtained from Chetwode House, 1 Samworth Way, Melton Mowbray, LE13 1GA.

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

- 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.
- The exemption under FRS 102.33 'Related Party Transactions' for wholly owned subsidiaries not to disclose intra-group transactions.
- The disclosure required on business combination presented in the consolidated financial statements.

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 28.

1.1. *Measurement convention*

The financial statements are prepared on the historical cost basis except that derivative financial instruments are held at fair value.

1.2. *Going concern*

The Company is party to the Samworth Brothers (Holdings) Limited group banking facilities. The directors have reviewed group cash flow projections which indicate that the group will continue to operate within its existing agreed bank facilities for at least twelve months from the date of approval of these financial statements. The Company's immediate parent Company, Samworth Brothers (Holdings) Limited, has confirmed its intention to provide continuing financial support to enable the Company to settle its liabilities as they fall due. Therefore, the directors consider it appropriate to prepare these financial statements on a going concern basis. The Directors have also considered the potential impact of Brexit and concluded there is no impact on the going concern basis.

Notes (continued)

1 Accounting policies (continued)

1.3. Foreign currency

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

1.4. Classification of financial instruments issued by the Company

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

- (a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

1.5. 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. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

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. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

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 out at cost less impairment.

Notes (continued)

1 Accounting policies (continued)

1.6. Tangible fixed assets

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

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 1.15 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. The estimated useful lives are as follows:

Freehold land	Is not depreciated
Leasehold land	Over the life of the lease
Non industrial freehold office buildings	40 years
Industrial freehold buildings	25 years
Long leasehold buildings	25 years
Short leasehold property	Over the life of the lease
Motor vehicles	4 - 7 years
Plant and machinery	3 - 10 years

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

Assets under construction are transferred to their respective categories and depreciated once they are fully completed and in use.

1.7. Intangible assets and goodwill

Goodwill

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

Other intangible assets

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

The cost of intangible asset acquired in a business combination is its fair value at the acquisition date.

Negative goodwill

Negative goodwill arises where, on acquisition, the consideration paid is less than the net assets acquired. Negative goodwill is credited to the profit and loss account over the period in which the benefit arising from the negative goodwill will be realised by the Company.

Notes (continued)

1 Accounting policies (continued)

1.7. Intangible assets and goodwill (continued)

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:

- Software 5 years
- Brands 5 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 is tested for impairment in accordance with FRS 102.27 *Impairment of assets* when there is an indication that it may be impaired.

1.8. Investment property

Investment properties are properties that are held either to earn rental income or for capital appreciation or for both. Investment properties are recognised initially at cost. Subsequent to initial recognition:

- Investment properties where fair value can be measured reliably without undue cost or effort are held at fair value. Any gains or losses arising from changes in the fair value are recognised in profit or loss in the period that they arise
- No depreciation is provided in respect of investment properties applying the fair value model.

1.9. Government grants

Government grants are included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the expected useful lives of the assets to which they relate or in periods in which the related costs are incurred.

1.10. 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, plus 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.

1.11. Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

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

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

Notes (continued)

1 Accounting policies (continued)

1.11. Impairment excluding stocks and deferred tax assets (continued)

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, or ("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. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

1.12. 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 profit and loss account in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Company determines the net interest expense on the net defined benefit liability for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability taking account of changes arising as a result of contributions and benefit payments.

The discount rate is the yield at the balance sheet date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the Company's obligations. A valuation is performed annually by a qualified actuary using the projected unit credit method. The Company recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in profit or loss.

Remeasurement of the net defined benefit liability is recognised in other comprehensive income.

Notes (continued)

1 Accounting policies (continued)

1.13. 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.

1.14. Turnover

Turnover is the total amount, excluding value added tax, receivable by the Company for goods and services provided. Turnover is recognised on delivery of products and is stated net of discounts. Substantially all significant risks and rewards transfer upon delivery of these goods.

1.15. Expenses

Operating lease

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

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

Interest receivable and interest payable

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

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

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

Notes (continued)

1 Accounting policies (continued)

1.17. Other operating income

Other operating income is expected income from the research and development credit ('RDEC') scheme. The expected income from the RDEC claim for the 2018 and 2017 year has been recognised in the profit and loss account as other operating income.

2 Turnover

Turnover is attributed to the sale of goods in relation to the one principal activity of the Company.

Turnover is analysed by geographical market as follows:

	2018 £000	2017 £000
United Kingdom	999,071	1,016,928
Europe	4,908	3,495
	<u>1,003,979</u>	<u>1,020,423</u>

3 Auditor's remuneration

	2018 £000	2017 £000
Audit of these financial statements	191	186
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit related assurance services	93	116
Transaction services	358	25
All other services	149	82
	<u>599</u>	<u>223</u>

4 Non-recurring costs

	2018 £000	2017 £000
Impairment of tangible fixed assets (a)	10,088	-
GMP equalisation liability (b)	1,200	-
Impairment of ERP system (c)	4,000	-
Closure of The Brooklands Bakery (d)	2,913	-
	<u>18,201</u>	<u>-</u>

- a) In the current year, Kensey Foods, a division of Samworth Brothers that operates in the desserts sector, incurred significant operating losses. An impairment review was conducted which resulted in an impairment of plant and machinery totalling £10.1 million (note 11).
- b) A £1.2 million additional liability has been recognised in the defined benefit pension scheme following the recent court case to equalise all Guaranteed Minimum Pension ("GMP") benefits (note 22).
- c) In the current year, a review has been performed of the benefits expected to be derived from the group wide Enterprise Resource Planning (ERP) system. Based on this review, a total impairment of £4.0 million has been recorded, all relating to computer software costs (note 10).

Notes (continued)

4 Non-recurring costs (continued)

- d) In the current year the Group announced the closure of the loss-making Brooklands Bakery in Weybridge, Surrey. As a consequence closure costs of £2.9 million were incurred. This charge primarily comprises redundancy costs, costs to terminate the property operating lease and other contract termination costs.

5 Staff numbers and costs

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

	Number of employees	
	2018	2017
Management and administration	1,119	1,085
Production, sales and distribution	7,679	7,718
	<u>8,798</u>	<u>8,803</u>

The aggregate payroll costs of these persons were as follows:

	2018 £000	2017 £000
Wages and salaries	226,586	224,329
Social security costs	20,161	19,597
Other pension costs	17,634	22,400
	<u>264,381</u>	<u>266,326</u>

6 Directors' remuneration

	2018 £000	2017 £000
Directors' emoluments	4,062	3,588
Amounts receivable under long term incentive schemes	917	666
Amounts paid to third parties in respect of directors' services	223	2,379
Long term incentive schemes paid to third parties in respect of directors services	209	389
	<u>5,411</u>	<u>6,032</u>

The aggregate of emoluments and amounts receivable under long term incentive scheme of the highest paid director was £1,227,247 (2017: £178,665). In both the current and the prior year the highest paid director is not a member of a defined benefit scheme and has no accrued pension at the year end.

	Number of directors	
	2018	2017
Retirement benefits are accrued during the year to the following number of directors under:		
Defined benefit schemes	-	-

Notes (continued)

7 Other interest receivable and similar income

	2018 £000	2017 £000
Other interest receivable	238	141
Total interest receivable and similar income	<u>238</u>	<u>141</u>

8 Interest payable and similar expenses

	2018 £000	2017 £000
Finance leases	258	211
Net interest expense on net defined benefit liabilities (note 22)	2,796	4,745
Total other interest payable and similar charges	<u>3,054</u>	<u>4,956</u>

9 Taxation

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

	2018 £000	2017 £000
<i>Current tax</i>		
Current tax on income for the period	2,515	7,931
Adjustments in respect of prior periods	13	(163)
Total current tax	<u>2,528</u>	<u>7,768</u>
<i>Deferred tax</i>		
Deferred tax credit	(480)	(2,621)
Deferred tax prior year	(655)	(249)
Total deferred tax	<u>(1,135)</u>	<u>(2,870)</u>
Total tax	<u>1,393</u>	<u>4,898</u>

Notes (continued)

9 Taxation (continued)

	£000	2018 £000	£000	£000	2017 £000	£000
	Current tax	Deferred tax	Total tax	Current tax	Deferred tax	Total tax
Recognised in profit and loss account	2,528	(1,135)	1,393	7,768	(2,870)	4,898
Recognised in other comprehensive income	-	2,283	2,283	-	13,292	13,292
Total tax	2,528	1,148	3,676	7,768	10,422	18,190

Reconciliation of effective tax rate

	2018 £000	2017 £000
(Loss)/profit for the year	(610)	20,375
Total tax expense	1,393	4,898
Profit excluding taxation	783	25,273
Tax using the UK corporation tax rate of 19% (2017: 19.25%)	149	4,865
Items disallowable for tax purposes	627	544
Amortisation of goodwill	137	166
Amortisation of negative goodwill	-	(307)
Ineligible depreciation	2,195	873
Grant amortisation	(23)	(38)
Group relief	(1,196)	(903)
Prior year corporation tax adjustment	13	(163)
Impact of rate changes	146	110
Prior year deferred tax adjustment	(655)	(249)
Total tax expense included in profit or loss	1,393	4,898

A 1% reduction in the main rate of UK corporation tax from 20% to 19% took place from 1 April 2017. A further reduction from 19% to 17% will take effect from 1 April 2020. This will reduce the Company's future tax charge accordingly. The deferred tax liability at 29 December 2019 has been calculated based on these rates.

Notes (continued)

10 Intangible assets and goodwill

	Brands/ Trademark £000	Goodwill £000	Software costs £000	Total £000
Cost				
Balance at 31 December 2017	-	17,204	14,853	32,057
Additions	67	-	8,277	8,344
Disposals	-	-	(55)	(55)
Reclassification from tangible fixed assets (note 11)	-	-	194	194
	<u>67</u>	<u>17,204</u>	<u>23,269</u>	<u>40,540</u>
Amortisation and impairment				
Balance at 31 December 2017	-	16,483	4,143	20,626
Charge for the year	2	721	1,651	2,374
Disposals	-	-	(55)	(55)
Impairment	-	-	4,000	4,000
Reclassification from tangible fixed assets (note 11)	-	-	(840)	(840)
	<u>2</u>	<u>17,204</u>	<u>8,899</u>	<u>26,105</u>
Net book value				
At 29 December 2018	<u>65</u>	<u>-</u>	<u>14,370</u>	<u>14,435</u>
At 30 December 2017	<u>--</u>	<u>721</u>	<u>10,710</u>	<u>11,431</u>

Amortisation

The amortisation charge is recognised in administrative expenses in the profit and loss account.

Current year impairment of software costs

The £4.0 million impairment charge all relates to the partial write down of the Group's ERP system following a review of expected benefits of the new system that was performed in the year. The impairment charge has been recorded in administrative expenses as a non-recurring cost (note 4).

Reclassification

During the year certain software costs and amortisation have been reclassified to tangible assets as the items relate to plant and machinery assets that have been incorrectly allocated in prior periods. The opposite entry has been recorded in note 11.

Notes (continued)

11 Tangible fixed assets

	Land and buildings £000	Plant and machinery £000	Motor vehicles £000	Under construction £000	Total £000
Cost					
Balance at 31 December 2017	139,171	396,255	23,378	14,378	573,182
Additions	1,027	12,045	2,930	8,051	24,053
Disposals	6	(3,453)	(1,835)	-	(5,294)
Reclassification	5,383	7,985	24	(13,392)	-
Reclassification to intangible assets (note 10)	-	(194)	-	-	(194)
Balance at 29 December 2018	145,575	412,638	24,497	9,037	591,747
Depreciation and impairment					
Balance at 31 December 2017	66,687	285,524	11,404	124	363,739
Charge for the year	4,879	23,025	2,899	(33)	30,770
Disposals	(3)	(2,601)	(1,819)	-	(4,424)
Impairment	-	10,088	-	-	10,088
Reclassification to intangible assets (note 10)	-	840	-	-	840
Balance at 29 December 2018	71,563	316,875	12,484	91	401,013
Net book value					
At 29 December 2018	74,012	95,763	12,013	8,946	190,734
At 31 December 2017	72,484	110,731	11,974	14,254	209,443

Current year impairments

Trading conditions within the desserts category remain challenging with Kensey Foods, a division of Samworth Brothers Limited, recording a significant operating loss in the year. An impairment review was performed with the carrying value of assets compared with the recoverable amount, represented by fair value less costs to sell. This resulted in an impairment to plant and machinery of £10.1 million, recorded in administration expenses as a non-recurring item (note 4).

Leased plant and machinery

At 29 December 2018, the net carrying amount of motor vehicles leased under finance leases was £9,841,000 (2017: £9,009,000). The leased equipment secures lease obligations (note 18).

Land and buildings

The net book value of land and buildings comprises:

	2018 £000	2017 £000
Freehold	58,165	56,070
Long leasehold	9,979	14,277
Short leasehold	5,868	2,137
	74,012	72,484

Notes (continued)

12 Fixed asset investments

	Investment in subsidiaries £000
Cost	
At beginning and end of the year	16,246
Provisions	
At beginning and end of the year	(3,204)
Net book value	
At 29 December 2018 and 30 December 2017	13,042

Further legal and professional fees of £19,000 were incurred in the year ended 29 December 2018 that relate to the acquisition of West Cornwall Pasty Co. on 23 December 2017.

	2018 £000	2017 £000
Other investments		
At 30 December 2017 and 29 December 2018	523	523

The other investment represents 25.1% of the ordinary share capital of Millitec Limited that was acquired in a prior period.

The Company has the following investments in subsidiaries. All of the Company's subsidiary undertakings are dormant or not trading with the exception of West Cornwall Pasty Co. Limited.

	Country of incorporation	Class of shares held	Registered office	Ownership 2018 %	Ownership 2017 %
Ginsters Limited	England and Wales	Ordinary	①	100	100
Thorpe Butler Limited	England and Wales	Ordinary	①	100	100
Westward Laboratories Limited	England and Wales	Ordinary	①	100	100
Walker & Son (Leicester) Limited	England and Wales	Ordinary	①	100	100
Moss Side Products Limited	England and Wales	Ordinary	①	100	100
Walkers (Leicester) Limited	England and Wales	Ordinary	①	100	100
Dickinson & Morris Limited	England and Wales	Ordinary	①	100	100
Tamar Foods Limited	England and Wales	Ordinary	①	100	100
Mrs King's Pork Pies Limited (formerly The Pink Ribbon Dessert Company Limited)	England and Wales	Ordinary	①	100	100
Kensley Foods Limited	England and Wales	Ordinary	①	100	100
Henry Walker (Retail) Limited	England and Wales	Ordinary	①	100	100
Melton Foods Limited	England and Wales	Ordinary	①	100	100
Samworth Brothers Distribution Limited	England and Wales	Ordinary	①	100	100
Kettleby Foods Limited	England and Wales	Ordinary	①	100	100
The Dessert Solutions Company Limited	England and Wales	Ordinary	①	100	100
The Sandwich Centre Limited	England and Wales	Ordinary	①	100	100
Blueberry Foods Limited	England and Wales	Ordinary	①	100	100
Brooksby Foods Limited	England and Wales	Ordinary	①	100	100
West Cornwall Pasty Co. Limited	England and Wales	Ordinary	②	100	100
West Cornwall Food Co. Limited	England and Wales	Ordinary	①	100	100

The registered offices of these companies are:

- ① Chetwode House, 1 Samworth Way, Melton Mowbray, Leicestershire, LE13 1GA,
- ② Woodbine Farm Business Centre, Threemilestone, Truro, Cornwall, England, TR3 6BW

Notes (continued)

13 Investment property

	2018 £000	2017 £000
Opening balance	5,575	-
Additions	852	3,726
Revaluation	573	1,849
Closing balance	7,000	5,575
Historical cost net book value	3,409	3,726

Investment properties totalling £7,000,000 were independently valued, on a Market Value basis, in December 2018, by an external independent valuer, FHP Property Consultants. FHP Property Consultants have appropriate and recognised professional qualifications and recent experience in the location and category of the property being valued. The external valuation has been prepared in accordance with the current RICS Valuation Standards published by the Royal Institution of Chartered Surveyors. Any gain or loss arising from a change in fair value is recognised in the profit or loss account.

14 Stocks

	2018 £000	2017 £000
Raw materials	10,309	10,480
Packaging materials	4,771	6,415
Goods for resale	7,618	8,774
Other stocks	6	176
	22,704	25,845

15 Debtors

	2018 £000	2017 £000
Trade debtors	118,051	122,560
Corporation tax	91	-
Amounts owed by group undertakings	33,976	32,675
Other debtors	10,165	9,318
Deferred tax assets (note 20)	17,330	18,478
Prepayments and accrued income	11,469	10,322
	191,082	193,353
Due within one year	191,082	193,353
Due after more than one year	-	-
	191,082	193,353

Notes (continued)

16 Creditors: amounts falling due within one year

	2018 £000	2017 £000
Obligations under finance leases (note 18)	2,484	1,983
Trade creditors	90,303	69,635
Amounts owed to group undertakings	12,308	8,069
Corporation tax	-	3,184
Other taxes and social security	6,300	6,536
Other creditors	13,179	13,614
Accruals and deferred income	25,299	30,481
	<u>149,873</u>	<u>133,502</u>

17 Creditors: amounts falling after more than one year

	2018 £000	2017 £000
Obligations under finance leases (see note 18)	7,606	7,423
	<u>7,606</u>	<u>7,423</u>

18 Interest-bearing loans and borrowings

Finance lease liabilities are payable as follows:

	Minimum lease payments 2018 £000	Minimum lease payments 2017 £000
Less than one year	2,484	1,983
Between one and five years	7,120	6,913
More than five years	486	510
	<u>10,090</u>	<u>9,406</u>

19 Accruals and deferred income

	Total £000
Government grants as at 31 December 2017	1,001
Amounts credited to profit and loss account in the period	(134)
Reclassification from accruals and deferred income within one year	42
	<u>909</u>
Government grants as at 29 December 2018	909

Notes (continued)

20 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
	£000	£000	£000	£000	£000	£000
Accelerated capital allowances	968	-	-	(475)	968	(475)
Defined benefit pension scheme	16,521	18,699	-	-	16,521	18,699
Other	-	254	(159)	-	(159)	254
	<u>17,489</u>	<u>18,953</u>	<u>(159)</u>	<u>(475)</u>	<u>17,330</u>	<u>18,478</u>
Tax assets /(liabilities)	17,489	18,953	(159)	(475)	17,330	18,478
Net of tax liabilities/(assets)	(159)	(475)	159	475	-	-
	<u>17,330</u>	<u>18,478</u>	<u>-</u>	<u>-</u>	<u>17,330</u>	<u>18,478</u>
Net tax assets	17,330	18,478	-	-	17,330	18,478

21 Provisions

	Property £000	Restructuring £000	Other £000	Total £000
Balance at 31 December 2017	2,906	600	744	4,250
Provisions created during the year	239	20	486	745
Provisions utilised during the year	(2,082)	(358)	-	(2,440)
Reclassifications to accruals and deferred income within one year	-	-	(176)	(176)
	<u>1,063</u>	<u>262</u>	<u>1,054</u>	<u>2,379</u>
Balance at 29 December 2018	1,063	262	1,054	2,379

Provisions include long-term incentive schemes, a dilapidation provision, a restructuring provision and provision for property exposures.

Other provisions relate to long-term incentive schemes that extend for three years. The provision relates to incentive schemes that are due to crystallise in 2020 and 2021, dependent upon results for the intervening period.

The dilapidation provision relates to costs to restore a premises to its original condition.

The provisions for property exposures relate to property valued by the Group less income from sub-let of the premises, and the non-avoidable costs that will be incurred on certain leasehold properties to the end of the lease.

The restructuring provision represents the expected cost to restructure certain businesses within the Group. The plan was formally communicated to the employees prior to the year end.

Notes (continued)

22 Employee benefits

Samworth Brothers Limited (the Company) operates a defined benefit pension arrangement called the Samworth Brothers Limited Superannuation Scheme (the Scheme). The Scheme provides benefits based on final salary and length of service on retirement, leaving service or death. The following disclosures exclude any allowance for defined contributions schemes operated by the Company.

The Scheme is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the Scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process, the Company must agree with the trustees of the Scheme the contributions to be paid to address any shortfall against the Statutory Funding Objective and contributions to pay for future accrual of benefits.

The most recent comprehensive actuarial valuation of the Scheme was carried out as at 5 April 2017. The results of that valuation were updated by an independent qualified actuary to 29 December 2018 allowing for cash flows in and out of the Scheme and changes to assumption over the period. On 3 September 2018, following a consultation period with members, the scheme was closed to future accrual. For those employees affected the Company now makes contributions to the Company defined contribution scheme.

GMP Equalisation Disclosure

Our pension scheme provided guaranteed minimum pensions ("GMPs") in lieu of benefits under the State Earned Related Pension Scheme ("SERPS") in respect of contracted-out service up to 5 April 1997. GMPs (in line with the State pension benefits provided within SERPS) are required to be paid to men and women at different retirement ages, 65 and 60 respectively. As a result of the ruling on 26 October 2018 relating to Lloyds Bank's pension schemes, Article 141 of the EC Treaty (and the Barber decision as enacted in the Pensions Act 1995) requires our scheme (or any UK pension scheme providing GMPs) to adjust benefits to remove inequalities introduced by GMPs, including those caused by the different retirement ages. In conjunction with our pension advisors, the Group has made an initial assessment of the additional liability this ruling would give rise to and at 29 December 2018 estimate the additional liability to be £1.2 million. This estimation is based on 7% of the proportion of the liabilities relating to GMPs accrued after 1990. Under FRS102, when making changes to future benefits of the Scheme, this is classified as a plan amendment and should therefore be accounted for as a past service cost. Past service costs are recognised in the income statement and the £1.2 million is presented as a non-recurring cost in Note 4.

Given the inherent uncertainty surrounding the details and application of the ruling and the complexity of our UK scheme, the amount of additional liability is calculated based on the information currently available. The key assumption in the calculation is that the additional liability will be 7% of the GMPs accrued after 1990. This is the best estimate at this time although we understand, from discussions with our advisors, that a range of 5-10% of the accrued GMPs might be appropriate as we gain more transparency on the ruling. We will therefore continue to revise the £1.2 million estimate going forward as we gain more clarity and understanding of exactly how this ruling will be applied and how it will impact our scheme.

Explanation of amounts in the financial statements

	2018 £000	2017 £000
Amounts recognised in the Balance Sheet		
Fair value of assets	445,288	462,493
Present value of funded obligations	(542,471)	(572,490)
Defined benefit liability at 29 December 2018	(97,183)	(109,997)

Notes (continued)

22 Employee benefits (continued)

	2018 £000	2017 £000
<i>Amounts recognised in the Profit & Loss account over the year:</i>		
Current service cost	8,921	17,052
Past service cost (note 4)	1,200	-
Administrative costs	1,109	2,050
Interest on liabilities	15,042	16,520
Interest on assets	(12,246)	(11,775)
Total	14,026	23,847

	2018 £000	2017 £000
<i>Amounts recognised in other comprehensive income over the year:</i>		
Losses/(gains) on scheme assets in excess of interest	29,963	(28,206)
Experience losses/(gains) on liabilities	1,855	(20,437)
Losses/(gains) from changes to demographic assumptions	4,802	(4,452)
Gains from changes to financial assumptions	(50,049)	(25,092)
Total	(13,429)	(78,187)

	2018 £000	2017 £000
The change in fair value of Pension Scheme assets over the period was:		
Fair value of assets at the beginning of the period	462,493	418,578
Interest on assets	12,246	11,775
Contributions by employer	13,411	8,279
Contributions by scheme participants	5,805	9,370
Benefits paid	(17,595)	(11,665)
Administration costs	(1,109)	(2,050)
Return on plan assets less interest	(29,963)	28,206
Fair value of assets at the end of the period	445,288	462,493

The change in the Defined Benefit obligation over the period was

	2018 £000	2017 £000
Defined benefit obligations at the beginning of the period	572,490	591,194
Current service cost	8,921	17,052
Past service cost	1,200	-
Contributions by scheme participants	5,805	9,370
Interest costs	15,042	16,520
Benefits paid	(17,595)	(11,665)
Experience loss/(gains) on defined benefit obligation	1,855	(20,437)
Changes to demographic assumptions	4,802	(4,452)
Changes to financial assumptions	(50,049)	(25,092)
Defined benefit obligation at the end of the period	542,471	572,490

Notes (continued)

22 Employee benefits (continued)

Assets

The major categories of assets as a percentage of total assets are as follows:

	2018	2017
	%	%
Asset category		
Equities	26.0%	30.9%
Gilts	26.2%	25.5%
Property	7.9%	7.2%
Cash and Net Current Assets	0.2%	1.3%
Other assets	39.7%	35.1%
	<u>100.0%</u>	<u>100.0%</u>

The assets do not include any investments in shares of the Company or in property that is occupied by the Company.

Actuarial assumptions

The principal actuarial assumptions used to calculate the Scheme liabilities include:

	2018	2017
	%	%
Discount rate	3.05%	2.65%
Inflation assumption		
- RPI	3.25%	3.20%
- CPI	2.15%	2.10%
Pension increases:		
- CPI max 5%	2.20%	2.10%
- CPI max 3%	1.95%	1.90%
- CPI max 2.5%	1.75%	1.75%
Revaluation in deferment	2.15%	2.10%
Salary increases	2.15%	2.10%

	2018	2017
Post retirement mortality	115% of S2NA tables CMI 2017 projections with long term rates of improvement of 1.0%pa and smoothing parameter of S = 7.5	115% of S2NA tables CMI 2017 projections with long term rates of improvement of 1.0%pa and smoothing parameter of S = 7.5
Tax free cash	80% of members assumed to take the maximum tax free cash possible, using current factors in force	80% of members assumed to take the maximum tax free cash possible, using current factors in force

Other assumptions as at 30 December 2017 and 29 December 2018 are as for the long term ongoing funding basis in the actuarial valuation of 5 April 2017.

Projected profit and loss account for the year to 28 December 2019

	£000
Current service cost	-
Administrative costs	-
Net interest charge	3,008
Total expense recognised in profit or loss	<u><u>3,008</u></u>

Notes (continued)

23 Capital and reserves

Share capital

	2018 £000	2017 £000
Allotted, called up and fully paid		
5,535 ordinary shares of £1 each	5	5
	<u>5</u>	<u>5</u>
 Shares classified in shareholders' funds	 5	 5
	<u>5</u>	<u>5</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

24 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2018 £000	2017 £000
Less than one year	6,733	8,518
Between one and five years	16,466	20,320
More than five years	25,604	29,151
	<u>48,803</u>	<u>57,989</u>

During the year £7,791,000 was recognised as an expense in the profit and loss account in respect of operating leases (2017: £8,246,000).

25 Commitments

Capital commitments

The Company contractual commitments to purchase tangible fixed assets at the year-end were £6,731,000 (2017: £2,175,000).

26 Related parties

The Company has taken advantage of the exemption under FRS 102.33 'Related Party Transactions' for wholly owned subsidiaries not to disclose intra-group transactions. During the year, certain managerial functions and staff were provided by JDM Solutions, a Company under common ownership. The Company has been invoiced management charges in respect of services provided in the year of £831,000 (2017: £3,278,000) with a creditor of £1,881,000 (2017: £2,816,000) outstanding at the year end.

27 Ultimate parent Company and parent Company of larger group

The directors regard the Trustees of a number of Private Trusts, acting in concert, to be the ultimate controlling body of the group by virtue of their interest in the share capital of Samworth Brothers (Holdings) Limited.

The largest and smallest group in which the results of the Company are consolidated is that headed by Samworth Brothers (Holdings) Limited. The consolidated financial statements of the group are available to the public and may be obtained from Samworth Way, Chetwode House, Melton Mowbray, Leicestershire LE13 1GA.

Notes *(continued)*

28 Accounting estimates and judgements

The Company has a defined benefit pension scheme, valued by a qualified actuary. The assumptions used are disclosed in note 22; the assets are recognised at fair value.

The carrying value of both tangible and intangible assets are assessed at each reporting date to determine whether there is objective evidence that the assets are impaired. The present value of the estimated future cash flows are reviewed by the directors for any indicators of impairment and an impairment is recognised if the carrying amount of the assets exceed its recoverable amount.

The UK pension scheme provides guaranteed minimum pensions (GMPs) in lieu of benefits under the State Earned Related Pension Scheme (SERPS) in respect of contracted-out services up to 5 April 1997. As a result of the ruling on 26 October 2018 relating to Lloyds Bank's pension schemes, all UK pension schemes providing GMPs are required to adjust benefits to remove inequalities introduced by GMPs, including those caused by the different retirement ages. The assumption used to estimate the additional liability that arises are disclosed in note 22.

The definition of non-recurring costs (exceptional costs) is not prescribed by FRS102 and therefore judgement is involved in determining which items constitute non-recurring costs. The Directors apply judgment when considering the presentation of non-recurring costs, and separate items by virtue of their nature, and size of incidence in order for users of the financial statements to obtain a proper understanding of the underlying performance of the business.

29 Post balance sheet events

On 26 January 2019 the Company acquired 100% of the share capital of Manton Wood Limited. Manton Wood is a provider of sandwiches, wraps and rolls to major retailers, operating in the food-to-go sector. We expect Manton Wood to contribute an annual turnover to the Group of £113 million. The Company has entered into a revolving credit facility with a club of banks to help fund this acquisition and have drawn down £71 million against this facility to do so.

On 23 January 2019 a formal consultation commenced with employees of Kensey Foods, a division of Samworth Brothers Limited, regarding the potential closure of this business.

On 16 May 2019 The Company entered into an agreement to sell the trade and assets of Blueberry Foods, a division of Samworth Brothers Limited, for an initial consideration of £17.4m.