

FORZA FOODS LIMITED

Reports and Financial Statements
29 December 2018

Registered Number: 07224571



Forza Foods Limited

Registered no 07224571

COMPANY INFORMATION

DIRECTORS

MS Smith-Hilliard

J Fasey

M Snell

V Rehal (appointed 28 August 2018)

SECRETARY

V Rehal

AUDITORS

Ernst & Young LLP

1 Bridgewater Place

Water Lane

Leeds

West Yorkshire

LS11 5QR

REGISTERED OFFICE

Unit 1 Foxbridge Way

Normanton Industrial Estate

Normanton

Wakefield

West Yorkshire

WF6 1TN

BANKERS

Barclays Bank

10 Hall Place

Spalding

Lincolnshire

PE11 1SR

Forza Foods Limited

STRATEGIC REPORT

The directors present their Strategic Report and financial statements for the 52 week period ended 29 December 2018.

Principal activities of the Business

The principal activity of Forza Foods Limited (hereafter referred to as “Forza” or “the Company”) is the procuring, slicing and packing of processed meats for ASDA Stores Limited (“ASDA”)

Future strategic intention

The Company’s purpose is to provide ASDA with the lowest cost, best quality, sustainable sourcing and supply chain solution. This supports ASDA’s delivery of a “low cost operating model”. The Company measures its performance against a balanced set of key performance indicators to ensure it is meeting this purpose.

Company profit and dividends

The profit after taxation for the period was £4,340,000 (2017: £3,796,000). The directors are satisfied with the results and achievements in the period to 29 December 2018 and believe that the future prospects of the Company are sound and consider that the business is adequately financed.

A dividend of £366,000 was paid in the period (2017: £nil).

Capital management

As a wholly owned subsidiary, the capital of Forza is monitored in accordance with the overall capital management policy of the ultimate parent company Walmart Inc. and the primary objective of Forza’s capital management policy is to be consistent with the requirements of the ultimate parent.

The consolidated financial statements of the ultimate parent company disclose how Walmart Inc. define and manage capital and meet the Group capital objectives.

Engagement with colleagues

Regular meetings are held between local management and colleagues to allow a free flow of information and ideas. Details of the number of employees and related costs can be found in note 5 to the financial statements.

Payment of suppliers

The Company deals with over 500 separate suppliers based in the UK and overseas, for the provision of both goods for resale and goods not for resale. The Company has established trading terms which are appropriate to the particular relationship and product supplied. Whenever an order is placed, parties are aware of the payment terms and it is the Company’s policy to abide by these terms when invoices have been received and approved.

Events since balance sheet date

On 30 April 2018, J Sainsbury plc and Walmart Inc. announced that they had agreed terms in relation to a Proposed Merger of J Sainsbury plc and ASDA (“the merger parties”).

On 20 February 2019, the Competition and Markets Authority (“the CMA”) published the preliminary findings of their inquiry into the Proposed Merger.

On 25 April 2019, the CMA published their final report into the Proposed Merger. The CMA decided to prohibit the Merger in its entirety. Although the Directors remain convinced that the Merger would have benefitted customers, ASDA have decided not to appeal the decision.

STRATEGIC REPORT (CONTINUED)

Principal risks and uncertainties

Risk is an inevitable part of the business. On an ongoing basis the Board review the principal risks, assess their likelihood and consequence, and develop and monitor appropriate controls. The Board has overall responsibility for risk management and ensures this is aligned with the business strategy and objectives. Key risks and mitigating actions are set out below:

- **Strategic risk**

We continue to invest in new opportunities and areas of growth in order to diversify our offering. The Board invests significant time in working with our parent company to formulate, review and communicate strategy effectively to those delivering it.

- **Supplier risk**

The current economic environment is challenging for our suppliers. This puts increased importance on the strength of our control processes and ability to recognise and respond to supplier issues. We review our controls in relation to supplier monitoring and continue to invest in our control environment and training to ensure we are compliant with the Groceries Supply Code of Practice.

- **Economic risk**

The consumer environment continues to be challenging, with discretionary income marginally decreasing during the period. Customers remain cautious in their spending habits and we expect conditions to remain tough for ASDA customers, with price being a key consideration. We will continue to drive cost efficiencies to allow ASDA to deliver a "low cost operating model".

Forza Foods Ltd have considered the potential economic impact of the UK's withdrawal from the European Union including the effect on price and availability of products and impact on our colleagues. A cross functional working group is in place and its main objective is to manage the impacts to Forza Foods Ltd of the UK's withdrawal in order to minimise disruption to our operation, and ultimately ASDA's customers.

- **Resourcing and capability risk**

Retention of key individuals and succession planning is important for long term stability and success. We have a robust appraisal process and talent review system to ensure the right individuals are in the right roles, with a clear path to long term development. Colleague engagement is maintained through open communication, both to allow management to share information about the business and to give colleagues the opportunity to provide feedback about working for the company. Appropriate governance and control is in place around the approval of new positions, bonus payments, pay increases and other people-related changes.

- **Financial risk**

The principal financial risk is having the funds available at the right time to meet business needs. This risk is managed by business forecasting for performance outturn and cash flow to ensure that the adequate funds are in place to meet the liabilities to suppliers and colleagues.

- **Regulatory and compliance risk**

We recognise that Forza Foods Ltd operates in an environment where we can be impacted by changes in Government policy. In response to this, we continue to risk assess all regulatory developments and test compliance with internal processes designed to mitigate risks, making improvements where required.

- **Fraud risk**

We have a control framework in place to help prevent and detect potential fraud and dishonest activity. Our Statement of Ethics provides clear guidance to colleagues on appropriate behaviour, including guidance on how to raise any business conduct concerns they may have. Colleagues can raise issues by contacting the independent Ethics hotline, or by contacting the Ethics team directly by email or phone. In addition, stringent procedures and regular monitoring is in place in respect of compliance with the UK Bribery Act and US Foreign Corrupt Practices Act.

STRATEGIC REPORT (CONTINUED)

Principal risks and uncertainties (continued)

- **System risk**

Detailed disaster recovery plans are in place in the event of an incident which could severely affect our ability to trade.

- **Environmental risk**

We recognise that we have a responsibility to minimise the adverse impact that our business activities may have on the environment. Failure to do so may result not only in adverse environmental impacts, but also financial penalties and long term damage to our reputation.

In recent years we have implemented a number of initiatives and processes in recognition of our environmental responsibilities. We are working in collaboration with suppliers to reduce plastic from our packaging and move towards 100% recyclable packaging by 2025.

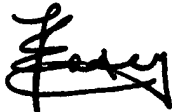
- **Data Protection risk**

In the event of non-compliance with the requirements of the General Data Protection Regulations ("GDPR"), there is a risk of data loss or misuse or other data breaches which could lead to significant fines and reputational damage. In response to this, we continue to risk assess all aspects of data protection and mitigate risk accordingly.

- **Health and safety risk**

In the event of non-compliance with applicable Health and Safety laws there is a risk that colleagues are harmed which could lead to significant fines and reputational damage. Forza Foods Limited has a health and safety policy as well as procedures and training in place across all sites. There are also established health and safety metrics and accident reporting to monitor the risk.

On behalf of the board:



J Fasey
Director

24 July 2019

Forza Foods Limited

DIRECTORS' REPORT

The directors present their report and financial statements for the period ended 29 December 2018.

Directors

The directors during the period are disclosed on page 1.

Dividends

Dividends of £366,000 were paid in the period (Dec 2017: £nil).

Political and charitable contributions

During the period, the Company did not make any cash donations to charitable organisations or political donations (2017: £nil).

Going concern and future outlook

The financial statements are prepared on the going concern basis as the Company has considerable financial resources and good long term prospects. As a consequence, the directors believe that the Company is well-placed to manage any financial risks successfully and continue to operate for the foreseeable future.

Colleagues with a disability or impairment

Forza Foods Ltd is an Equal Opportunities Employer, meaning that selection, training, development and promotion is based solely on the applicant's skills, abilities and potential. We will always seek to make reasonable adjustments during any selection process to prevent disabled candidates being at a disadvantage when compared to those who are not disabled.

If an existing colleague becomes disabled, it is our policy wherever possible, to work with the individual and our Occupational Health provider to identify any reasonable adjustments possible to ensure suitable and continuing employment.

Directors' liabilities

The Company has granted an indemnity to each of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity remains in force as at the date of approving the Directors' Report. The insurance is controlled and paid centrally by the ultimate parent company.

For a list of directors who held office during the period please refer to the beginning of these financial statements.

Directors' statement as to disclosure of information to auditors

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

Re-appointment of auditors

In accordance with Section 485 of the Companies Act 2006, a resolution for the re-appointment of Ernst & Young LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board



J Fahey

Director

24 July 2019

DIRECTORS' RESPONSIBILITY STATEMENT

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

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss for that period.

In preparing those 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; and;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FORZA FOODS LIMITED

Opinion

We have audited the financial statements of Forza Food Limited for the period ended 29 December 2018 which comprise the Income Statement, the Statement of Changes in Equity, the Balance Sheet and the related notes 1 to 18, 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 (United Kingdom Generally Accepted Accounting Practice) including FRS 101 "Reduced Disclosure Framework". In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 29 December 2018 and of its profit for the period 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.

Forza Foods Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FORZA FOODS LIMITED (*continued*)

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

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

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

Victoria Venning (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds

25 July 2019

Forza Foods Limited

INCOME STATEMENT

for the period ended 29 December 2018

		<i>Period Ended 29 December 2018 £000</i>	<i>Period Ended 30 December 2017 – Restated £000</i>
	<i>Note</i>		
Revenue	2	263,660	262,454
Cost of sales	2	(236,244)	(235,658)
Gross profit		27,416	26,796
Administrative expenses		(23,556)	(23,135)
Operating profit	2	3,860	3,661
Financial income	6	101	8
Profit before taxation		3,961	3,669
Income tax credit	7	379	127
Profit for the period		4,340	3,796

The overall result of £4,340,000 (Dec 2017: £3,796,000) is all attributable to continuing operations.

There are no other items of other comprehensive income in the year (2017: none)

Forza Foods Limited

STATEMENT OF CHANGES IN EQUITY

For the period ended 29 December 2018

	<i>Notes</i>	<i>Share premium £000</i>	<i>Share capital £000</i>	<i>Retained earnings £000</i>	<i>Total equity £000</i>
Balance at 1 January 2017		11,990	10	40,923	52,923
Profit for the period	12	-	-	3,796	3,796
Balance at 30 December 2017		<u>11,990</u>	<u>10</u>	<u>44,719</u>	<u>56,719</u>
		<i>Share premium £000</i>	<i>Share capital £000</i>	<i>Retained earnings £000</i>	<i>Total equity £000</i>
Balance at 31 December 2017		11,990	10	44,719	56,719
Profit for the period	12	-	-	4,340	4,340
Dividends paid		-	-	(366)	(366)
Balance at 29 December 2018		<u>11,990</u>	<u>10</u>	<u>48,693</u>	<u>60,693</u>

Forza Foods Limited

BALANCE SHEET

As at 29 December 2018

		29 December 2018 £000	30 December 2017 £000
	Note		
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	8	17,929	19,134
		<u>17,929</u>	<u>19,134</u>
<i>Current assets</i>			
Inventories	9	22,754	19,562
Trade and other receivables	10	28,548	25,806
Cash and cash equivalents		23,272	20,622
		<u>74,574</u>	<u>65,990</u>
Total assets		<u>92,503</u>	<u>85,124</u>
Equity and liabilities			
<i>Equity attributable to the owners of the parent</i>			
Called up share capital	11	10	10
Share premium account	12	11,990	11,990
Retained earnings	12	48,693	44,719
Total equity		<u>60,693</u>	<u>56,719</u>
Liabilities			
<i>Current liabilities</i>			
Trade and other payables	13	31,779	27,995
<i>Non-current liabilities</i>			
Deferred Tax Liability	14	31	410
Total liabilities		<u>31,810</u>	<u>28,405</u>
Total equity and liabilities		<u>92,503</u>	<u>85,124</u>

The financial statements were approved by the board of directors and signed on its behalf by:



J Pusey
Director

24 July 2019

Forza Foods Limited

NOTES TO THE ACCOUNTS

as at 29 December 2018

1. ACCOUNTING POLICIES

Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of Forza Foods Limited (the “Company”) for the period ended 29 December 2018 were authorised for issue by the board of directors on 24 July 2019 and the balance sheet was signed on behalf of the directors by J Fasey. The Company is a private company limited by shares, incorporated and domiciled in England under the Companies Act 2006 (registration number 07224571).

These financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with historical cost convention, the Companies Act 2006 and applicable accounting standards.

The Company’s financial statements are presented in Sterling and all values are rounded to the nearest one thousand pounds (£000) except when otherwise indicated. The presentational currency is also the Company functional currency.

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of ASDA Group Limited. The results of the Company are included in the consolidated financial statements of ASDA Group Limited, which are available from ASDA House, Southbank, Great Wilson Street, Leeds, LS11 5AD. These financial statements are therefore separate financial statements of the Company only.

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

Basis of preparation

The financial statements of the Company are made up to the nearest Saturday to 31 December each year. The current financial year is the 52 weeks ended 29 December 2018 (‘the period’). The comparative financial year is the 52 weeks ended 30 December 2017 (‘the prior period’).

The financial statements are prepared on the going concern basis as the Company has considerable financial resources and good long-term prospects. As a consequence, the directors believe that the Company is well-placed to manage any financial risks successfully and continue to operate for the foreseeable future.

The accounting policies which follow have, unless otherwise stated, been applied consistently to all periods presented in these Company financial statements. The Company has taken advantage of the following disclosure exemptions under FRS 101:

- The requirements of IFRS 7 ‘Financial Instruments: Disclosures’;
- The requirements of paragraphs 91-99 of IFRS 13 ‘Fair Value Measurement’;
- The requirement in paragraph 38 of IAS 1 ‘Presentation of Financial Statements’ to present comparative information in respect of:
 - Paragraph 79(a)(iv) of IAS 1;
 - Paragraph 73 of IAS 16 ‘Property, Plant and Equipment’; and
 - Paragraph 118 of IAS 38 ‘Intangible Assets’.
- The requirements of paragraphs 10(d), 10(f), 16, 38A-D, 40A-D, 111 and 134-136 of IAS 1 ‘Presentation of Financial Statements’;
- The requirements of IAS 7 ‘Statement of Cash Flows’
- The requirements of paragraphs 30 and 31 of IAS 8 ‘Accounting Policies, Changes in Accounting Estimates and Errors’;
- The requirements of paragraphs 17 and 18A of IAS 24 ‘Related Party Disclosures’;

NOTES TO THE ACCOUNTS
as at 29 December 2018

1. Accounting policies (*continued*)

Basis of preparation (continued)

- The requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135-135 of IAS 36 'Impairment of Assets'.

Where applicable, equivalent disclosures are included in the consolidated financial statements of ASDA Group Limited, in which the Company is consolidated.

Changes in accounting policy

New standards, interpretations and amendments effective

The following have been applied for the first time from 31 December 2017.

IFRS 15 - Revenue from Contracts with Customers

Forza Foods Limited has applied IFRS 15 in the period on a fully retrospective basis. The standard applies to all revenue contracts and provides a model for the recognition and measurement of sales of some non-financial assets (e.g. disposals of property, plant and equipment). The core principle of IFRS 15 is that revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Application is required for annual periods beginning on or after 1 January 2018, with earlier application permitted.

In previous periods the revenue arising from goods sold to ASDA was presented according to the nature of the service provided. Services including transport, logistics and packaging were recognised on a gross basis and included within reported revenue along with sales to third parties. The costs of goods provided to ASDA were recorded on a net basis within cost of sales.

Following the adoption of IFRS 15, all sales where Forza controls the goods before transferring to the customer are accounted for within revenue on a gross basis. The adoption of this accounting policy results in an increase to reported revenue and cost of sales in the current period and prior period as detailed in note 2. All amounts included in revenue are recorded net of discounts, VAT and other sales-related taxes.

IFRS 9 - Financial Instruments: Classification and Measurement

IFRS 9 'Financial Instruments' has been applied from 31 December 2017 to replace previous requirements in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including the new expected credit loss ("ECL") model for calculating impairment of financial assets, and the new general hedge accounting requirements. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The Company has assessed the requirements of IFRS 9 on the carrying value of financial assets, the classification of financial assets and the application of hedge accounting and has concluded that there is no material impact on the consolidated financial statements at 29 December 2018 or 30 December 2017. In respect of the ECL model for determining whether financial assets are impaired, management has conducted a review of all material intercompany and trade receivables and determined that each significant counterparty is demonstrably able to settle its liabilities to the Company on demand and in full at 29 December 2018 and 30 December 2017. Therefore the probability of default is nil and no impairment charge has been recorded at 29 December 2018 or 30 December 2017.

Forza Foods Limited

NOTES TO THE ACCOUNTS

as at 29 December 2018

1. Accounting policies (*continued*)

New standards, interpretations and amendments not yet effective

The following newly issued but not yet effective standards, interpretations and amendments, which have not been applied in these financial statements, will or may have an effect on the company financial statements in future:

IFRS 16 - Leases

IFRS 16 replaces existing IFRS lease requirements in IAS 17 Leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for each lease. Lessor accounting is substantially unchanged from the current standard. Application is required for annual periods beginning on or after 1 January 2019, with earlier application permitted. The Company is using a modified retrospective approach and has elected to measure lease assets at an amount based on the lease liability. The Company is applying the short term lease exemption and will recognise rental expense relating to short term leases directly to the income statement.

The Company has reviewed all leases and assessed the impact to the financial statements. The change will have a significant impact on the Company's balance sheet, specifically a material increase to assets and liabilities. It will also materially impact the presentation within the income statement as operating profit will increase and finance costs will increase. Total cash flows are unaffected by the application of IFRS 16. Details of the Company's operating lease commitments are included in note 15.

Judgements, estimates and assumptions

Management are required to make judgements, estimates and assumptions that affect the application of policies and reported assets and liabilities, income and expenses. Judgements, estimates and assumptions are continually evaluated and are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

Judgements

Supplier incentives, rebates, fixed income and discounts are collectively known as "supplier income". Accounting for the amount and timing of recognition of certain elements of supplier income may require the exercise of judgement depending on the contractual terms in place. The three key types of supplier income are explained in the accounting policy on page 15. The Company had no arrangements with judgemental elements in the current or prior periods.

Estimates and assumptions

Estimates and assumptions are made with regard to inventory net realisable values (note 9), determining appropriate useful economic lives for property, plant and equipment (note 8), finance versus operating lease classification (note 15) and the likelihood that tax assets can be realised (note 14). Actual results may differ from these estimates.

Revenue recognition

Income from sales to group companies

Revenue represents income received for the sale of produce to ASDA Stores Limited and other Walmart companies, on both an agency net and gross basis. Sales where Forza Foods Ltd controls the goods before transferring to the customer are accounted for within revenue on a gross basis. Revenue is measured at the fair value of the consideration received or receivable and represents commission receivable under agency agreements in respect of goods procured in the normal course of business, net of discounts, VAT and other sales-related taxes.

Forza Foods Limited

NOTES TO THE ACCOUNTS

as at 29 December 2018

1. Accounting policies (*continued*)

Income from sales to third parties

Revenue from sales external to the group is recognised gross based on the terms of the contract, net of discounts, VAT and other sales-related taxes.

Finance Income

Interest receivable comprises interest on bank deposits. Interest income is recognised in the income statement as it accrues, at a constant rate on the carrying amount.

Supplier Income

Supplier incentives, rebates and discounts are recognised as a deduction from costs, as they accrue in accordance with the terms of each relevant supplier contract. All supplier income is supported by contracts. In some instances, contractual periods extend over the Company's period end. In such cases the amount of any income accrued in relation to these contracts is supported by detailed calculations or supply data.

Supplier income is split into three classifications:

- Supplier incentives and discounts – which are usually expressed in the supplier contract as an agreed amount per item sold. This type of income is specifically calculated and therefore no judgment is required in determining the amount of income to record in the financial period;
- Annual supplier rebate – these are earned and billed within the Company's financial period in the majority of cases. The rebates are linked to supply of specific products at fixed prices. No tiered arrangements are in place. Agreements may span the period end but in these cases income is recognised based on purchases in the period and explicit terms in each contract, therefore no judgement is required in determining the amount of income to record in the financial period;
- Fixed amount supplier income – where fixed monetary amounts are agreed with suppliers relating to agreed minimum volumes. Any income accrued is supported by detailed calculations and is non-judgemental.

Unbilled amounts of income to which the Company is contractually entitled are included in trade and other receivables, or offset against corresponding trade payables, however these amounts are all non-judgemental, being based only on purchases in the financial period with no assumptions required. Billed amounts unpaid at period end are included in trade receivables or offset against corresponding trade payables where a contractual right of offset exists.

Taxation

Taxation comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes except:

- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and

Forza Foods Limited

NOTES TO THE ACCOUNTS

as at 29 December 2018

1. Accounting policies (*continued*)

Taxation (continued)

- deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense in the income statement as they fall due.

Property, plant and equipment

All property, plant and equipment are recorded at cost less accumulated depreciation and any recognised provision for impairment.

Depreciation is provided on all property, plant and equipment, at rates calculated to write off the cost less estimated residual value, based on prices prevailing at the date of acquisition of each asset, evenly over its expected useful life, as follows:

Freehold buildings – 2% straight line

Plant and equipment - 10% to 20% per annum straight line

Freehold land is not depreciated

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Impairment of non-financial assets

At each balance sheet date, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

Forza Foods Limited

NOTES TO THE ACCOUNTS

as at 29 December 2018

1. Accounting policies (*continued*)

Leasing transactions

Rentals payable under operating leases, including fixed rental increases, are charged to the income statement on a straight line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

Financial assets and liabilities

The Company classifies its financial assets and liabilities in the following categories: trade and intercompany receivables, cash and cash equivalents and trade and intercompany payables.

Management determines the classification of its instruments at initial recognition.

All financial assets and liabilities are recognised initially at fair value. The Company assesses financial assets for impairment using the expected credit losses model and recognises impairment losses as required.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing inventories to their present location and condition. Cost is calculated using the actual method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Trade and other receivables

Trade and other receivables are stated at their original invoiced value and reduced by appropriate allowances for estimated irrecoverable amounts. Impaired debts are derecognised when they are assessed as uncollectible. Intercompany receivables are non-interest bearing, unsecured, are repayable on demand and are measured at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits.

Trade and other payables

Trade and other payables are non-interest bearing and are stated at their nominal value. Intercompany payables are non-interest bearing and are repayable on demand.

Forza Foods Limited

NOTES TO THE ACCOUNTS as at 29 December 2018

1. Accounting policies (*continued*)

Foreign currencies

The financial statements of the Company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the financial statements, the results and financial position of the Company are expressed in pounds sterling, which is the functional currency of the company.

In preparing the financial statements of the Company, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

2. OPERATING PROFIT

Operating profit is stated after charging:

	<i>Period Ended 29 December 2018 £000</i>	<i>Period Ended 30 December 2017 £000</i>
Depreciation of property, plant and equipment (note 8)	3,682	3,838
Operating lease expense	243	239
Foreign currency loss	-	152
Cost of inventories written off during the period	184	327
Employment costs (note 5)	31,010	29,916

As detailed in note 1, the Company adopted IFRS 15 on 31 December 2017 on a fully retrospective basis. This note details the new accounting policy for revenue and shows the impact of the adoption of IFRS 15 on the Company's primary financial statements. The effect of the adoption is to increase reported revenue and cost of sales for the current and prior period to the extent that goods are controlled by the Company prior to sale to ASDA.

	<i>As reported, Period ended 30 December 2017 £000</i>	<i>Impact of IFRS15 £000</i>	<i>Period ended 30 December 2017 - restated £000</i>
Revenue	72,575	189,879	262,454
Cost of sales	(45,779)	(189,879)	(235,658)
Gross profit	26,796	-	26,796
Administrative expenses	(23,135)	-	(23,135)
Operating profit	3,661	-	3,661

Total profit for the period, and the prior period is not impacted by transition to IFRS 15.

Forza Foods Limited

NOTES TO THE ACCOUNTS as at 29 December 2018

3. DIRECTORS' REMUNERATION

	<i>Period Ended 29 December 2018 £000</i>	<i>Period Ended 30 December 2017 £000</i>
Directors' emoluments	248	463
Value of Company pension contributions to defined contributions schemes	-	-
Number of directors who are members of Company pension schemes	-	-

The amounts in respect of the highest paid director are as follows:

	<i>Period Ended 29 December 2018 £000</i>	<i>Period Ended 30 December 2017 £000</i>
Directors' emoluments	248	374
Value of Company pension contributions to defined contributions schemes	-	-

One director, M Hilliard (2017: Two), received remuneration for the period to 31 August 2018 in relation to qualifying services provided to the Company. The directors J Fasey, M Snell, V Rehal and M Hilliard (from 31 August 2018) are paid by other companies within the Asda Group for their overall services to the Company with no recharge being made to Forza Foods Limited. The emoluments of these directors are disclosed in the financial statements of International Procurement and Logistics Limited.

4. AUDITORS' REMUNERATION

	<i>Period Ended 29 December 2018 £000</i>	<i>Period Ended 30 December 2017 £000</i>
Fees payable to the company's auditors for audit of the company financial statements	33	35

Forza Foods Limited

NOTES TO THE ACCOUNTS as at 29 December 2018

5. EMPLOYMENT COSTS

	<i>Period Ended 29 December 2018 £000</i>	<i>Period Ended 30 December 2017 £000</i>
Wages and salaries	30,565	29,734
Other pension costs	445	182
	<u>31,010</u>	<u>29,916</u>

The average number of employees in the period was as follows:

	<i>Period Ended 29 December 2018</i>	<i>Period ended 30 December 2017</i>
Total employees		
Production	1,511	1,355
Administrative	76	79
	<u>1,587</u>	<u>1,434</u>
Full time equivalents		
Production	1,491	1,335
Administrative	74	77
	<u>1,565</u>	<u>1,412</u>

6. FINANCIAL INCOME

	<i>Period Ended 29 December 2018 £000</i>	<i>Period Ended 30 December 2017 £000</i>
Interest on bank deposits	101	8
	<u>101</u>	<u>8</u>

Forza Foods Limited

NOTES TO THE ACCOUNTS as at 29 December 2018

7. TAXATION

Tax credit/(charge) recognised in the income statement

	<i>Period Ended 29 December 2018 £000</i>	<i>Period Ended 30 December 2017 £000</i>
Current tax:		
UK corporation tax on profit for the period	-	-
Adjustments in respect of prior periods	-	1
Total current tax credit	<u>-</u>	<u>1</u>
Deferred tax:		
On profits for the period	265	266
Adjustments in respect of prior periods	114	(140)
Effect of Rate Change	-	-
Total deferred tax credit	<u>379</u>	<u>126</u>
Total tax credit from continuing operations	<u><u>379</u></u>	<u><u>127</u></u>

Reconciliation of effective tax rate

	<i>29 December 2018 £000</i>	<i>30 December 2017 £000</i>
Profit before tax	<u>3,961</u>	<u>3,669</u>
Tax using the UK corporation tax rate of 19% (Dec 2017: 19.25%)	<u>753</u>	<u>706</u>
Effects of:		
Non-deductible expenses	67	43
Adjustments in respect of prior periods	(114)	140
Group relief	(1,085)	(1,016)
Tax charge for the year	<u><u>(379)</u></u>	<u><u>(127)</u></u>

The standard rate of corporation tax in the United Kingdom for the period is 19% (2017: 19.25%). On 15 September 2016 the Finance Act 2016 received Royal Assent and enacted a further reduction in the main rate of corporation tax to 17% with effect from 1 April 2020.

Deferred tax has been provided at the rate at which the deferred tax liability is likely to reverse.

Forza Foods Limited

NOTES TO THE ACCOUNTS as at 29 December 2018

8. PROPERTY, PLANT & EQUIPMENT

	<i>Freehold Land & buildings</i>	<i>Plant and Equipment</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>Cost</i>			
Balance at 30 December 2017	6,538	42,757	49,295
Additions for the period	-	2,656	2,656
Disposals	-	(496)	(496)
Balance at 29 December 2018	6,538	44,917	51,455
<i>Accumulated depreciation</i>			
Balance at 30 December 2017	953	29,208	30,161
Depreciation charge for the period	130	3,552	3,682
Disposals	-	(317)	(317)
Balance at 29 December 2018	1,083	32,443	33,526
<i>Net book value</i>			
Balance at 30 December 2017	5,585	13,549	19,134
Balance at 29 December 2018	5,455	12,474	17,929

Forza Foods Limited

NOTES TO THE ACCOUNTS as at 29 December 2018

9. INVENTORIES

	<i>29 December 2018 £000</i>	<i>30 December 2017 £000</i>
Produce and raw materials	20,191	16,961
Packaging	950	1,063
Engineering	1,613	1,538
	<u>22,754</u>	<u>19,562</u>

10. TRADE AND OTHER RECEIVABLES

	<i>29 December 2018 £000</i>	<i>30 December 2017 £000</i>
Amounts receivable from trade customers	132	170
Other debtors	3,484	5,647
Amounts receivable from group undertakings	24,554	19,709
Prepayments and accrued income	378	280
	<u>28,548</u>	<u>25,806</u>

11. CALLED UP SHARE CAPITAL

	<i>No.</i>	<i>£000</i>
Authorised, called up & fully paid 30 December 2017		
Ordinary shares of 10p each	100,000	10
Ordinary shares of £1 each	1	-
	<u>100,001</u>	<u>10</u>
	<u><u>100,001</u></u>	<u><u>10</u></u>
	<i>No.</i>	<i>£0</i>
Authorised, called up & fully paid at 29 December 2018		
Ordinary shares of 10p each	100,000	10
Ordinary shares of £1 each	1	-
	<u>100,001</u>	<u>10</u>
	<u><u>100,001</u></u>	<u><u>10</u></u>

Forza Foods Limited

NOTES TO THE ACCOUNTS as at 29 December 2018

12. RESERVES

<i>Notes</i>	<i>Share premium £000</i>	<i>Share capital £000</i>	<i>Retained earnings £000</i>	<i>Total equity £000</i>
Balance at 1 January 2017	11,990	10	40,923	52,923
Profit for the period	-	-	3,796	3,796
Balance at 30 December 2017	<u>11,990</u>	<u>10</u>	<u>44,719</u>	<u>56,719</u>
	<i>Share premium £000</i>	<i>Share capital £000</i>	<i>Retained earnings £000</i>	<i>Total equity £000</i>
Balance at 31 December 2017	11,990	10	44,719	56,719
Profit for the period	-	-	4,340	4,340
Dividends paid	-	-	(366)	(366)
Balance at 29 December 2018	<u>11,990</u>	<u>10</u>	<u>48,693</u>	<u>60,693</u>

The share premium account represents the additional amount shareholders paid for their issued shares in excess of the par value of those shares.

13. TRADE AND OTHER PAYABLES

	<i>29 December 2018 £000</i>	<i>30 December 2017 £000</i>
Trade payables	21,888	19,407
Amounts owed to group undertakings	862	708
Other taxation and social security costs	3,131	2,848
Accruals and deferred income	5,898	5,032
	<u>31,779</u>	<u>27,995</u>

Forza Foods Limited

NOTES TO THE ACCOUNTS as at 29 December 2018

14. DEFERRED TAXATION

	<i>29 December 2018 £000</i>	<i>30 December 2017 £000</i>
Provision for deferred tax		
Accelerated capital allowances	96	410
Short term timing differences	(65)	-
	<hr/>	<hr/>
Provision for Deferred Tax	31	410
	<hr/>	<hr/>
Movement in deferred tax provision		
At beginning of period as previously stated	410	536
Provision credited to the profit and loss account attributable to operating profit	(379)	(126)
	<hr/>	<hr/>
At the end of the period	31	410
	<hr/>	<hr/>

15. OBLIGATIONS UNDER LEASES

At the balance sheet date, the Company had outstanding commitments for future minimum undiscounted lease payments under non-cancellable operating leases in respect plant and machinery, which fall due as follows:

	<i>29 December 2018 £000</i>	<i>30 December 2017 £000</i>
Within one year	224	251
In the second to fifth years inclusive	274	314
Over five years	-	3
	<hr/>	<hr/>
	498	568
	<hr/>	<hr/>

The Company leases various vehicles and equipment under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights.

16. RELATED PARTY TRANSACTIONS

As a wholly owned subsidiary, the Company has taken advantage of the exemption in paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries of the Broadstreet Great Wilson Europe Limited group.

NOTES TO THE ACCOUNTS

as at 29 December 2018

17. RETIREMENT BENEFIT SCHEMES – DEFINED CONTRIBUTION SCHEME

The Company participates in a Stakeholder Pension Plan, a defined contribution scheme. From 1 February 2014 the company entered into an auto enrolment scheme in addition to the Stakeholder Pension Plan, the total value into both plans during the period was £445,000 (Dec 2017: £182,000).

As at 29 December 2018, contributions of £80,000 (Dec 2017: £33,000) due in respect of the current reporting period had not been paid over to the schemes.

18. PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent undertaking is Forza AW Limited, a company incorporated in England and Wales.

The smallest group at which consolidated financial statements are prepared is ASDA Group Limited. Copies of these financial statements are available from the registered office, ASDA House, Southbank, Great Wilson Street, Leeds, LS11 5AD.

In the directors' opinion, the ultimate parent undertaking and controlling party is Wal-Mart Stores Inc. which is incorporated in the USA. Copies of its consolidated financial statements, which include this Company, can be obtained from the Company Secretary, Wal-Mart Stores, Inc., Corporate Offices, 702 SW 8th Street, Bentonville, AR72716, USA