# Independent Auditor's Report

to the Members of National Milk Records plc

## Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2022 and of the Group's profit for the year then ended;
- the Group and Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of National Milk Records plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 30 June 2022 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows, and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group and Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard in the United Kingdom and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice) .

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remain independent of the Group and the Parent 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 as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

## Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

We obtained the going concern assessment, approved by the Directors, including detailed cash flow forecasts up to 30 June 2024.

We assessed the Directors' assumptions in the going concern forecast including revenue and growth profile, profit margin, effects of Russia's invasion of Ukraine and funding headroom availability We did this with reference to historical performance, post year end results and market developments, such as changes to accreditation requirements for the dairy industry,. We agreed forecast repayment of loans and finance leases to the finance agreements. We confirmed that forecast dividend payments are as proposed in the annual report.

We assessed the historical accuracy of management's forecasts, including comparing the current forecasts against post year end actual results.

# Independent Auditor's Report

(continued)

We inspected the Group's signed facility agreements to check that the Group's forecasts remain within agreed facility levels for the forecast period.

We assessed, with reference to historical performance, the appropriateness of sensitivity analyses prepared by management over the Group's cash flow forecasts including the effects of adverse movements in revenue to determine the sufficiency of available cash resources to settle short term liabilities as they fall due over the forecast period. We have also challenged management on reverse stress testing on a number of scenarios occurring and assessed the likelihood of these scenarios occurring and their impact on the business.

We reviewed the adequacy of disclosures in note 1 to the financial statements regarding going concern in reference to our understanding of the entity and the director's assessment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

### Overview

| | | | |
|---|---|---|---|
| **Coverage**[1] | 100% (2021: 100%) of Group profit before tax<br>100% (2021: 100%) of Group revenue<br>100% (2021: 100%) of Group total assets | | |
| **Key audit matters** | | **2022** | **2021** |
| | Revenue Recognition – *occurrence of revenue around the year end for subscription services* | X | X |
| **Materiality** | *Group financial statements as a whole*<br>£188,000 (2021: £151,000) based on 8.9% (2021: 8%) of profit before tax | | |

### An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

The group consists of 2 significant components and a number of dormant subsidiaries. The two significant components of the group which comprise 100% of trading results are:

- The parent entity, National Milk Records plc which accounts for all of the group's revenue, profit and net assets (excluding investments and the share of profit in joint ventures – see below) which was subject to a full scope audit by the Group audit team; and
- The joint venture, Independent Milk Laboratories Ltd (IML), which makes up the share of profit in joint ventures within the consolidated profit & loss account, and 80% of the group's NBV of fixed asset investments which was subject to a full scope audit by a non-BDO member firm in Ireland.

The non-significant dormant subsidiaries were subject to desktop review procedures by the Group audit team.

# Independent Auditor's Report
(continued)

### Our involvement with component auditors

For the work performed by the non-BDO component auditor in relation to the joint venture, Independent Milk Laboratories Ltd, we determined the level of involvement needed in order to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group financial statements as a whole. Our involvement with component auditors included the following:

- Issue of detailed Group reporting instructions, which included the significant areas to be covered by their audit (including items with significant judgements and complex transactions), and set out the information required to be reported to the Group audit team;
- Regular communication with the component auditors throughout the planning, execution and completion phases of the audit; and
- Remote review of their working papers with specific work requests to ensure alignment with the conclusions they have drawn.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | | How the scope of our audit addressed the key audit matter |
|---|---|---|
| **Revenue recognition – occurrence of revenue around the year end for subscription services**<br><br>Refer to note 1 & 2 | Subscription revenue, which is included in Core services, is billed monthly in advance of services and is a significant revenue stream for the Group.<br><br>We have identified a risk that subscription revenue may be overstated due to understatement of the credit note provision at year end as the process for raising credit notes is manual and reliant on communication from field representatives to the finance team. Due to the timing between billing and communication from field representatives, the raising of credit notes can be delayed.<br><br>We identified this as a key audit matter due to the significant value subscription revenue contributes to overall revenue and the significant amount of auditor attention needed on this area. | Our procedures included the following:<br><br>We agreed a sample of trade debtor balances at the year-end had been recovered in cash after year end to assess if there were any customer disputes over the services being provided which might indicate a credit note provision should be raised at year end.<br><br>We agreed a sample of credit notes after the year end to supporting information from field representatives to check they were recognised in the correct period or were correctly included/excluded from the year end credit note provision.<br><br>**Key observations:**<br><br>Based on the results from the procedures performed we concluded that the credit note provision and revenue recorded around the year end was appropriate. |

### Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

| | Group financial statements | | Parent Company financial statements | |
|---|---|---|---|---|
| | 2022<br>£ | 2021<br>£ | 2022<br>£ | 2021<br>£ |
| **Materiality** | 188,000 | 151,000 | 169,250 | 136,000 |
| **Basis for determining materiality** | 8.9% of profit before tax | 8% of profit before tax | 90% of overall group materiality | |
| **Rationale for the benchmark applied** | The 2022 profit before tax is considered to be the most appropriate performance measure as the KPIs of the business revolve round profit measures. | | The parent company materiality was set as a proportion of overall group materiality based on its contribution to group revenue and profit before tax. | |
| **Performance materiality** | 135,000 | 106,000 | 121,500 | 95,000 |
| **Basis for determining performance materiality** | We set our performance materiality at 72% (2021: 70%) of materiality. The level of performance materiality applied was set after having considered a number of factors including our initial assessment of the overall control environment and the expected level of misstatements. | | | |

#### Component materiality

We set materiality for IML based on a percentage of 60% of Group materiality as a result of our risk assessment of the size and risk of material misstatement of that component. Component materiality was £113,000 (2021: £90,000) for IML. We further applied performance materiality levels of 72% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

#### Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £3,700 (2021: £3,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

# Independent Auditor's Report

(continued)

## Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Consolidated Financial Statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

| | |
|---|---|
| **Strategic report and Directors' report** | In our opinion, based on the work undertaken in the course of the audit:<br>• the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and<br>• the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.<br>In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report. |
| **Matters on which we are required to report by exception** | 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:<br>• adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or<br>• the Parent Company financial statements are not in agreement with the accounting records and returns; or<br>• certain disclosures of Directors' remuneration specified by law are not made; or<br>• we have not received all the information and explanations we require for our audit. |

# Independent Auditor's Report

(continued)

### Responsibilities of Directors

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

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

### Auditor's responsibilities for the audit of the financial statements

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

#### Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Through discussion with the Directors and other management, we obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and Parent Company, and determined that the most significant are the Companies Act 2006, accounting standards, Aquis Growth Market Rules and the Corporation Tax Act 2010.

We assessed compliance with these laws and regulations through enquiry with management and the Audit Committee, review of reporting to Directors with respect to compliance with laws and regulations, review of board meeting minutes, review of legal correspondence, and agreement of the financial statements to tax returns.

We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur and considered that fraud might occur through the management override of controls and revenue recognition.

In addressing the risk of fraud, including management override of controls, we have performed journals testing based on a set of risk criteria and tested to these to supporting documentation, also assessing if there was a valid business rationale. These criteria included bonus scheme journals, material journals, manual credit journals to profit or loss accounts in the last quarter of the year, unexpected account combinations, and authorised users testing. We also incorporated unpredictability into our procedures as part of our response to the risk of management override of controls. We addressed the risk of fraud in revenue recognition through testing of manual entries impacting reported revenue. We analysed the journal entries made to revenue account codes across the Group and investigated the reason for journal entries made that appeared unusual and not in line with our expected transaction flows. We obtained supporting documentation for management's explanations.

# Independent Auditor's Report

(continued)

We enquired with management about whether they were aware of any known, suspected, or alleged fraud. We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: 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 Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Sarah Applegate (Senior Statutory Auditor)**
For and on behalf of BDO LLP, Statutory Auditor
Bristol

03 October 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Consolidated Profit and Loss Account

Year ended 30 June 2022

| | Note | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| Revenue | 2 | 23,158 | 21,917 |
| Cost of sales | | (13,241) | (12,731) |
| **Gross profit** | | 9,917 | 9,186 |
| Administrative expenses | | (8,312) | (7,882) |
| Other operating income | | 7 | 36 |
| **Operating Profit** | 5 | 1,612 | 1,340 |
| Share of operating profit in joint venture | 12 | 701 | 413 |
| | | 2,313 | 1,753 |
| Interest payable and similar expenses | 6 | (98) | (112) |
| Income from other fixed asset investments | 7 | 6 | 8 |
| **Profit Before Tax** | | 2,221 | 1,649 |
| Taxation on profit | 8 | 222 | 391 |
| **Profit for the year** | | **2,443** | **2,040** |
| Earnings per share (pence) | 9 | | |
| Basic | | 11.5 | 9.6 |
| Diluted | | 11.5 | 9.6 |

All amounts are derived from continuing operations.

The notes on pages 30 to 53 form part of these financial statements

# Consolidated Statement of Comprehensive Income

Year ended 30 June 2022

| | Note | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|---|
| **Profit for the year** | | 2,443 | 2,040 |
| Exchange rate gain/(loss) on investment in joint venture | 12 | 14 | (75) |
| Total comprehensive income for the year | | **2,457** | **1,965** |

The notes on pages 30 to 53 form part of these financial statements

# Consolidated Balance Sheet

At 30 June 2022

| | Note | 2022 £'000 | 2022 £'000 | 2021 £'000 | 2021 £'000 |
|---|---|---|---|---|---|
| **FIXED ASSETS** | | | | | |
| Intangible assets | 10 | | 2,690 | | 1,788 |
| Tangible assets | 11 | | 3,445 | | 3,479 |
| Investments | 12 | | 1,881 | | 1,302 |
| | | | 8,016 | | 6,569 |
| **CURRENT ASSETS** | | | | | |
| Stock | 13 | 432 | | 506 | |
| Debtors – due within one year | 14 | 3,264 | | 3,027 | |
| Debtors – due after one year | 14 | 788 | | 907 | |
| Cash at bank and in hand | | 2,075 | | 2,105 | |
| | | 6,559 | | 6,545 | |
| **CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR** | 15 | (3,889) | | (3,729) | |
| **NET CURRENT ASSETS** | | | 2,670 | | 2,816 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | | 10,686 | | 9,385 |
| **CREDITORS AMOUNTS FALLING DUE AFTER ONE YEAR** | 16 | | (1,840) | | (2,318) |
| **PROVISION FOR LIABILITIES** | 18 | | (21) | | (47) |
| **NET ASSETS** | | | **8,825** | | **7,020** |
| **CAPITAL AND RESERVES** | | | | | |
| Called-up share capital | 19 | | 53 | | 53 |
| Own shares | 20 | | – | | (33) |
| Profit and loss account | 20 | | 8,772 | | 7,000 |
| **SHAREHOLDERS' FUNDS** | | | **8,825** | | **7,020** |

The financial statements of National Milk Records PLC, registered number 03331929, were approved by the Board of Directors and authorised for issue on 03 October 2022.

Signed on behalf of the Board of Directors

**Andy Warne**
Director

The notes on pages 30 to 53 form part of these financial statements

# Company Balance Sheet

At 30 June 2022

| | Note | 2022 £'000 | 2022 £'000 | 2021 £'000 | 2021 £'000 |
|---|---|---|---|---|---|
| **FIXED ASSETS** | | | | | |
| Intangible assets | 10 | | 2,690 | | 1,788 |
| Tangible assets | 11 | | 3,445 | | 3,479 |
| Investments | 12 | | 221 | | 221 |
| | | | 6,356 | | 5,488 |
| **CURRENT ASSETS** | | | | | |
| Stock | 13 | 432 | | 506 | |
| Debtors – due within one year | 14 | 3,264 | | 3,027 | |
| Debtors – due after one year | 14 | 788 | | 907 | |
| Cash at bank and in hand | | 2,075 | | 2,105 | |
| | | 6,559 | | 6,545 | |
| **CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR** | 15 | (3,889) | | (3,729) | |
| **NET CURRENT ASSETS** | | | 2,670 | | 2,816 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | | 9,026 | | 8,304 |
| **CREDITORS AMOUNTS FALLING DUE AFTER ONE YEAR** | 16 | | (1,840) | | (2,318) |
| **PROVISION FOR LIABILITIES** | 18 | | (21) | | (47) |
| **NET ASSETS** | | | **7,165** | | **5,939** |
| **CAPITAL AND RESERVES** | | | | | |
| Called-up share capital | 19 | | 53 | | 53 |
| Own shares | 20 | | – | | (33) |
| Profit and loss account | 20 | | 7,112 | | 5,919 |
| **SHAREHOLDERS' FUNDS** | | | **7,165** | | **5,939** |

The financial statements of National Milk Records PLC, registered number 03331929, were approved by the Board of Directors and authorised for issue on 03 October 2022.

As permitted by Section 408 of the Companies Act 2006, the profit and loss account and statement of comprehensive income of the parent Company is not separately presented as part of these financial statements. The parent Company's profit for the financial year was £1,878,000 (2021: £1,846,000).

Signed on behalf of the Board of Directors

**Andy Warne**
Director

The notes on pages 30 to 53 form part of these financial statements

# Consolidated Statement of Changes in Equity

Year ended 30 June 2022

| | Called-up share capital £'000 | Own Shares £'000 | Profit and loss account £'000 | Total £'000 |
|---|---|---|---|---|
| **GROUP** | | | | |
| At 30 June 2020 | 53 | (195) | 5,059 | 4,917 |
| Profit for the year | – | – | 2,040 | 2,040 |
| Other comprehensive income for the year | – | – | (75) | (75) |
| **Total comprehensive income for the year** | – | – | 1,965 | 1,965 |
| Employee share option plan now vested unconditionally | – | 162 | – | 162 |
| Credit to equity for equity-settled share-based payments | – | – | 238 | 238 |
| Dividends | – | – | (262) | (262) |
| **At 30 June 2021** | 53 | (33) | 7,000 | 7,020 |
| Profit for the year | – | – | 2,443 | 2,443 |
| Other comprehensive income for the year | – | – | 14 | 14 |
| **Total comprehensive income for the year** | **–** | **–** | **2,457** | **2,457** |
| Employee share option plan now vested unconditionally | – | 33 | (523) | (490) |
| Credit to equity for equity-settled share-based payments | – | – | 152 | 152 |
| Dividends | – | – | (314) | (314) |
| **At 30 June 2022** | **53** | **–** | **8,772** | **8,825** |

The notes on pages 30 to 53 form part of these financial statements

# Company Statement of Changes in Equity

Year ended 30 June 2022

| | Called-up share capital £'000 | Own Shares £'000 | Profit and loss account £'000 | Total £'000 |
|---|---|---|---|---|
| **COMPANY** | | | | |
| At 30 June 2020 | 53 | (195) | 4,097 | 3,955 |
| Profit for the year | – | – | 1,846 | 1,846 |
| **Total comprehensive income for the year** | – | – | 1,846 | 1,846 |
| Employee share option plan now vested unconditionally | – | 162 | – | 162 |
| Credit to equity for equity-settled share-based payments | – | – | 238 | 238 |
| Dividends | – | – | (262) | (262) |
| **At 30 June 2021** | 53 | (33) | 5,919 | 5,939 |
| Profit for the year | – | – | 1,878 | 1,878 |
| **Total comprehensive income for the year** | **–** | **–** | **1,878** | **1,878** |
| Employee share option plan now vested unconditionally | – | 33 | (523) | (490) |
| Credit to equity for equity-settled share-based payments | – | – | 152 | 152 |
| Dividends | – | – | (314) | (314) |
| **At 30 June 2022** | **53** | **–** | **7,112** | **7,165** |

The notes on pages 30 to 53 form part of these financial statements

# Consolidated Statement of Cash Flows

Year ended 30 June 2022

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Cash flows from operating activities** | | | | |
| Profit for the financial year | | 2,443 | | 2,040 |
| Amortisation of intangible assets | 265 | | 229 | |
| Amortisation of loan expenses | 12 | | 12 | |
| Depreciation of tangible assets | 641 | | 609 | |
| Profit on disposal of tangible assets | (20) | | (1) | |
| Share of operating profit in joint venture | (701) | | (413) | |
| Dividend income from fixed asset investment | (6) | | (8) | |
| Net interest payable | 91 | | 95 | |
| Taxation credit | (222) | | (391) | |
| Share based payment charges | 152 | | 238 | |
| (Increase)/Decrease in trade and other debtors | (134) | | 312 | |
| Decrease/(Increase) in stocks | 74 | | (109) | |
| Decrease in creditors | (132) | | (777) | |
| | | 20 | | (204) |
| Income taxes refunds received | | 278 | | 263 |
| **Cash from operations** | | 2,741 | | 2,099 |
| **Cash flows from investing activities** | | | | |
| Dividend received from Joint Venture | 136 | | 218 | |
| Dividends received | 6 | | 8 | |
| Purchase of tangible assets | (457) | | (487) | |
| Purchase of intangible assets | (1,167) | | (599) | |
| Proceeds from sale of tangible assets | 20 | | 9 | |
| | | (1,462) | | (851) |
| **Cash flows from financing activities** | | | | |
| Dividends paid | (314) | | (262) | |
| Lease finance paid down | (266) | | (192) | |
| Interest paid | (91) | | (95) | |
| Loan repayments | (578) | | (490) | |
| Cash proceeds from loans | – | | 750 | |
| Purchase of shares for share option plans | (60) | | – | |
| | | (1,309) | | (289) |
| **Net (decrease)/increase in cash and cash equivalents** | | (30) | | 959 |
| **Cash and cash equivalents at beginning of year** | | 2,105 | | 1,146 |
| **Cash and cash equivalents at end of year** | | **2,075** | | **2,105** |

The notes on pages 30 to 53 form part of these financial statements

# Notes to the Financial Statements

Year ended 30 June 2022

## 1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

### Basis of accounting

National Milk Records PLC (the Company) is a Company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the Company's registered office is shown on page 2.

The principal activities of the Company and its subsidiaries (the Group) and the nature of the Group's operations are set out in the group strategic report on pages 3 to 6.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of National Milk Records PLC is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. The consolidated financial statements are also presented in pounds sterling. Foreign operations are included in accordance with the policies set out below.

In preparing the separate financial statements of the Parent Company, advantage has been taken of the following disclosure exemptions available to qualifying entities:

- No cash flow statement or net debt reconciliation has been presented for the Parent Company;
- Disclosures in respect of the details of the parent company's share-based payment arrangements have not been presented as equivalent disclosures have been provided in respect of the group as a whole; and
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the group as a whole

### Basis of consolidation including joint venture

The Group financial statements consolidate the financial statements of the Company and its subsidiaries and joint venture undertaking drawn up to 30 June each year.

The joint venture is accounted for using the equity method in the consolidated accounts. Under this method an equity investment is initially recognised at the transaction price (including transaction costs) and is subsequently adjusted to reflect the investor's share of the profit or loss, other comprehensive income and equity of the joint venture. The consolidated statement of comprehensive income includes the Group's share of the operating results, interest, pre-tax results and attributable taxation of such undertakings applying accounting policies consistent with those of the Group. Any share of losses are only recognised to the extent that they do not reduce the investment balance below zero as the Group has no obligations to make payments on behalf of the joint venture, and any share of subsequent profits shall be accounted for once the unrecognised profits are equal to the unrecognised losses. In the consolidated balance sheet, the interest in the joint venture is shown as the Group's share of the identifiable net assets, including any unamortised premium paid on acquisition. Any unrealised profits and losses from transactions between the Group and the joint venture are eliminated to the extent of the Group's interest in the joint venture.

# Notes to the Financial Statements

(continued)

## 1. ACCOUNTING POLICIES (continued)

**Going concern**

We have reviewed the current liquidity and debt facilities against the projected budget for year ended 30 June 2022 and the subsequent financial plan for years ended June 2023 and June 2024 and have run various sensitivity analyses and their consequences for trading, investment, and financing cash flows. These included worst-case scenarios for customer longevity, market erosion, and a significant interruption to laboratory operations, for example a fire.

Based on our conservative EBITDA planning trajectory, the headroom in our finance facilities, our ability to change the phasing of our planned investment as well as responding to any trading issues as they arise, the NMR Board is confident it has the liquidity in place to continue in operational existence for the foreseeable future and for at least the next 21 months and so supports the preparation of the 2022 accounts on a going concern basis.

Further details regarding the adoption of the going concern basis can be found in the Strategic Report.

**Turnover**

Turnover is stated net of value added tax and trade discounts. Turnover is attributable to the supply of services to the agricultural market. All turnover is derived from ordinary activities and has arisen within the United Kingdom other than revenue for services provided to the Joint Venture.

Turnover from the sale of goods is recognised when group has transferred the significant risks and rewards of ownership to the buyer and it is probable that the Group will receive the previously agreed upon payment. This is usually when the goods are physically delivered to the customer. Sale of goods is included in Other adjacencies in note 2.

Turnover from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the value of the consideration due. Repeat services for customers on a subscription contract, which are included within Core services in note 2, are invoiced monthly as a function of herd size and turnover is recognised on a straight line basis in accordance with the subscription. Non subscription services, which are included in Core services, Testing adjacencies, Surveillance adjacencies, Other adjacencies and Genomics in note 2, are invoiced when the service is provided and at this point turnover is recognised.

**Tangible fixed assets**

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

| | |
|---|---|
| Freehold buildings | 5% – 10% |
| Leasehold buildings | 20% – 33% |
| Computer equipment and machinery | 10% – 33% |
| Motor vehicles | over the term of the lease |

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

# Notes to the Financial Statements

(continued)

## 1. ACCOUNTING POLICIES (continued)

**Intangible fixed assets**

Research expenditure is written off as incurred. Intangible assets before development are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. Development costs have been capitalised in accordance with FRS 102 Section 18 Intangible Assets other than Goodwill and are therefore not treated, for dividend purposes, as a realised loss. This includes software development and licences. In such cases the identifiable asset is amortised on a straight-line basis over the period during which the Group is expected to benefit. This period is between three and eleven years. Provision is made for any impairment. Amortisation commences when assets are brought into use and therefore assets in the course of construction and not yet in use at the year end are not amortised

**Grant income**

Grant income is not recognised until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received. Grant income is accounted for on an accruals basis and grants relating to revenue are recognised in income on a systematic basis over the periods in which the Group recognises the related costs.

Government grants of a revenue nature are recognised within other income within profit or loss. This includes the Government Business Interruption Payment in relation to the Coronavirus Business Interruption Loan Scheme (see note 5). Initial recognition of the loan is at transaction price. During the first 12 months of the loan, as and when the interest expense on the loan is recognised, a corresponding amount of grant income is recognised.

**Stock**

Stock is stated at the lower of cost and net realisable value using the first in first out method. Provision is made for obsolete, slow-moving or defective items where appropriate.

**Impairment of assets**

*Non-financial assets*

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

*Financial assets*

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

# Notes to the Financial Statements

(continued)

## 1. ACCOUNTING POLICIES (continued)

**Taxation**

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax. Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

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

**Foreign currencies**

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

The results of the overseas joint ventures are translated at the average annual exchange rate for turnover and profits. The balance sheets of overseas joint ventures are translated at year end exchange rates. The resulting exchange differences are dealt with through Other Comprehensive Income.

**Hire purchase and leasing commitments**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the group. All other leases are classified as operating leases.

Assets held under finance leases are recognised initially at the fair value of the leased asset (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation using the effective interest method so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are deducted in measuring profit or loss. Assets held under finance leases are included in tangible fixed assets and depreciated and assessed for impairment losses in the same way as owned assets.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

**Financial liabilities and equity**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

# Notes to the Financial Statements
(continued)

## 1. ACCOUNTING POLICIES (continued)

**Provisions**

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

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received, and the amount of the receivable can be measured reliably. Any asset recognised shall not exceed the amount of the provision.

**Pension costs**

At the balance sheet date, the Group operates a defined contribution pension scheme. The amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

**Share options**

The Company issues equity-settled share options to certain employees. Equity-settled share options are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of the Black Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

**Financial instruments**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

*Financial assets and liabilities*

All financial assets and liabilities are initially measured at transaction price (including transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the balance sheet when, and only when there exists a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

# Notes to the Financial Statements

(continued)

## 1. ACCOUNTING POLICIES (continued)

*Financial assets*

The group only enters into basic financial assets, including trade and other debtors and cash and bank balances. These are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

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

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

*Financial liabilities*

Basic financial liabilities, including trade and other creditors, bank loans, finance leases and hire purchase contracts are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers and are classified as current liabilities if payment is due within one year or less.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

*Investments*

In the Company balance sheet, investments in subsidiaries and associates are measured at cost less impairment. Other investments which represent an investment in an unlisted company is measured at cost less impairment.

*Dividends*

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

# Notes to the Financial Statements

(continued)

## 1. ACCOUNTING POLICIES (continued)

### CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**Key sources of estimation uncertainty**

**Share options**

Key estimates are used in determining the fair value of share-based payment transactions, including selecting the most appropriate valuation model and related inputs into that model. The Group operates one Share Option Plan and two Executive Bonus Plans with equity settled transactions. The Group has used the Black Scholes model to establish a fair value of the share options at the grant date. Estimates are also required at each reporting date in determining the number of options that are expected to vest. Details of the assumptions and models used are disclosed in note 27.

**Recoverability of deferred tax assets**

The Group recognises deferred tax assets on carried forward losses to the extent that there are sufficient estimated future taxable profits against which the tax losses can be utilised. The key source of estimation uncertainty exists in the assumptions underlying the forecast future taxable profits. Future performance resulting in higher or lower taxable profits in the forecast periods will result in a differing amounts of tax relief available in those periods.

## 2. TURNOVER

An analysis of group turnover by revenue stream is as follows:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Core services | 18,819 | 18,005 |
| Testing adjacencies | 1,883 | 1,794 |
| Surveillance adjacencies | 503 | 455 |
| Other adjacencies | 1,465 | 1,371 |
| Genomics | 488 | 292 |
| | **23,158** | **21,917** |

Included within Other adjacencies is the sale of goods with a value of £420,000 (2021: £386,000). The remaining revenue is all derived from services.

The company internally aggregates operating results into one operating segment for decision making purposes.

Other than revenue for services provided to the Joint Venture (see note 26), all turnover is derived within the UK.

# Notes to the Financial Statements

(continued)

## 3. STAFF COSTS

The average number of employees in the Group and Company (including executive directors) was:

| | 2022 | 2021 |
|---|---|---|
| Field Staff | 60 | 59 |
| Administration Staff | 217 | 217 |
| | **277** | **276** |

Their aggregate remuneration comprised:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Wages and salaries | 8,170 | 8,074 |
| Social security costs | 795 | 712 |
| Defined contribution pension costs | 318 | 298 |
| | **9,283** | **9,084** |

## 4. DIRECTORS' REMUNERATION

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Directors' remuneration | 442 | 373 |
| Directors' pension contributions to money purchase schemes | 21 | 21 |
| The number of directors to whom retirement benefits were accruing was: | 5 | 5 |

The figures for the highest paid director were:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Director's remuneration | 220 | 167 |
| Director's pension contributions to money purchase schemes | 8 | 8 |

The number of directors who exercised share options in the year was nil (2021: nil).

# Notes to the Financial Statements

(continued)

## 5. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Depreciation of owned assets | 460 | 443 |
| Depreciation of assets held under hire purchase and finance lease agreements | 181 | 166 |
| Profit on disposal of fixed assets | (20) | (1) |
| Amortisation of intangible assets | 265 | 229 |
| Operating lease rentals | 378 | 383 |
| Foreign exchange losses | 18 | 9 |
| Impairment (Gain)/Loss in respect of bad and doubtful debts | (117) | (180) |
| Share based payment expenses | 152 | 238 |
| Impairment loss in respect of inventories | – | 34 |
| Government grants – Business Interruption Payments | (7) | (17) |

Fees payable to the company's auditor:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| for the audit of the company's annual accounts | 83 | 68 |
| for the audit of the company's subsidiaries | – | 8 |
| Total audit fees | 83 | 76 |
| Tax compliance services | – | – |
| Total non-audit fees | **–** | **–** |

No services were provided pursuant to contingent fee arrangements.

The disclosures in this table are for the Group. The Company is not required, in its individual financial statements, to disclose separately information about fees for non-audit services provided to the Company because the consolidated financial statements are required to disclose such fees on a consolidated basis.

**Reconciliation of operating profit to underlying EBITDA**

| **Group** | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Operating Profit | 1,612 | 1,340 |
| Add back: | | |
| Charge for Share Based Payments | 152 | 238 |
| Depreciation | 641 | 608 |
| Amortisation | 265 | 229 |
| Underlying EBITDA | **2,671** | **2,415** |

# Notes to the Financial Statements

(continued)

## 6. INTEREST PAYABLE AND SIMILAR EXPENSES

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Finance lease and hire purchase interest | (22) | (23) |
| Bank loan interest | (76) | (89) |
| | (98) | (112) |
| Net Finance cost | **(98)** | **(112)** |

## 7. INCOME FROM FIXED ASSET INVESTMENTS

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Dividends received | **6** | **8** |

## 8. TAX ON PROFIT

**Analysis of the tax charge**

The tax charge comprises:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Current tax** | | |
| UK corporation tax | – | – |
| Adjustments in respect of prior years | (278) | (244) |
| Total current tax | (278) | (244) |
| **Deferred tax** | | |
| Origination and reversal of timing differences | (56) | 80 |
| Adjustment to deferred tax asset relating to changes in tax rate | 112 | (227) |
| Total deferred tax | 56 | (147) |
| **Tax on profit** | **(222)** | **(391)** |

**Factors affecting the tax charge**

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Group profit before tax | 2,221 | 1,649 |
| Tax on Group profit on ordinary activities at standard UK Corporation tax rate of 19% (2021 19%) | 422 | 313 |
| Effects of: | | |
| Non-trading profits | (133) | (80) |
| Adjustments in respect of prior periods | (278) | (244) |
| Utilisation of tax losses | (380) | (170) |
| Adjustment to deferred tax asset relating to changes in tax rate | 112 | (227) |
| Expenditure disallowed for tax | 35 | 17 |
| **Tax** | **(222)** | **(391)** |

# Notes to the Financial Statements

(continued)

### 8. TAX ON PROFIT (continued)

Adjustments in respect of prior periods of £278,000 (2021 : £244,000) relate to successful claims for Research and Development tax credits.

Changes to the UK corporation tax rates were substantively enacted as part of Finance Act 2021. The rate applicable from 1 April 2023 increases to 25% and in accordance with accounting standards the deferred tax balances in these financial statements have been adjusted to effect this change. Given the mini Budget on Friday 23rd September, we acknowledge that the £112,000 Adjustment to deferred tax asset relating to changes in tax rate, would reverse out once the announced new tax rates are enacted.

The directors believe that £496,000 of the deferred tax asset is likely to unwind within 12 months of this report.

### 9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated using the weighted average number of shares adjusted to assume the conversion of all dilutive potential ordinary shares.

The shares held by the Employee Benefit Trust, which have not vested unconditionally, are deducted from total shares in arriving at the weighted average number of ordinary shares used in the earnings per share calculation.

| | 2022 | | |
|---|---|---|---|
| | **Earnings £'000** | **Weighted average number of shares** | **EPS** |
| Basic | 2,443 | 21,239,702 | 11.5 |
| Dilution | – | – | – |
| **Diluted EPS** | **2,443** | **21,239,702** | **11.5** |

| | 2021 | | |
|---|---|---|---|
| | **Earnings £'000** | **Weighted average number of shares** | **EPS** |
| Basic | 2,040 | 21,189,702 | 9.6 |
| Dilution | – | 50,000 | – |
| **Diluted EPS** | **2,040** | **21,239,702** | **9.6** |

There have been no other transactions involving ordinary shares or potential ordinary shares that might affect dilution between the reporting date and the date of completion of these financial statements.

# Notes to the Financial Statements

(continued)

## 10. INTANGIBLE ASSETS

### Group and Company

| | Software development £'000 | Licences £'000 | Intangibles under construction £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 30 June 2021 | 1,166 | 101 | 1,092 | 2,359 |
| Additions | 87 | 311 | 769 | 1,167 |
| **At 30 June 2022** | **1,253** | **412** | **1,861** | **3,526** |
| **Amortisation** | | | | |
| At 30 June 2021 | 568 | 3 | – | 571 |
| Charge for the year | 256 | 9 | – | 265 |
| **At 30 June 2022** | **824** | **12** | **–** | **836** |
| **Net book value** | | | | |
| At 30 June 2021 | 598 | 98 | 1,092 | 1,788 |
| **At 30 June 2022** | **429** | **400** | **1,861** | **2,690** |

The amortisation charge is included within Administrative expenses on the Consolidated Profit and Loss Account.

Included within Intangible Assets are several significant projects:

The current customer relationship management and finance systems will be replaced and during the year, development costs of £633,000 (2021 £519,000) have been incurred. As the replacement system is not yet operational, no amortisation has been charged.

An initial payment for a licence was made during the year to allow the business the exclusive right to use Genocells technology within the US. At 30 June 2022 the net book value was £311,000 and no amortisation had been charged.

# Notes to the Financial Statements

(continued)

## 11. TANGIBLE FIXED ASSETS

**Group and Company**

| | Land and Buildings £'000 | Computer equipment and machinery £'000 | Motor Vehicles £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 30 June 2021 | 1,613 | 5,577 | 736 | 7,926 |
| Additions | 24 | 708 | 25 | 757 |
| Disposals | – | (147) | (59) | (206) |
| **At 30 June 2022** | **1,637** | **6,138** | **702** | **8,477** |
| **Depreciation** | | | | |
| At 30 June 2021 | 820 | 3,162 | 465 | 4,447 |
| Disposals | – | – | (56) | (56) |
| Charge for the year | 75 | 453 | 114 | 641 |
| **At 30 June 2022** | **895** | **3,615** | **523** | **5,032** |
| **Net book value** | | | | |
| At 30 June 2021 | 793 | 2,415 | 271 | 3,479 |
| **At 30 June 2022** | **742** | **2,523** | **179** | **3,445** |

Included in Land and Buildings is land with a net book value of £250,000 (2020: £250,000). There is no land held under leasehold.

Included within computer equipment and machinery are assets with a net book value of £650,000 (2021: £569,000) held under hire purchase agreements. All motor vehicles for 2022 and 2021 are held under finance leases.

# Notes to the Financial Statements

(continued)

## 12. FIXED ASSET INVESTMENTS

**Group**

| | IML JV £'000 | Other investments £'000 | Total £'000 |
|---|---|---|---|
| **Net book value** | | | |
| At 30 June 2020 | 1,140 | 43 | 1,183 |
| Share of pre-tax results | 451 | - | 451 |
| Share of tax charge | (38) | - | (38) |
| Dividend received | (219) | - | (219) |
| Exchange gain | (75) | - | (75) |
| **At 30 June 2021** | **1,259** | **43** | **1,302** |
| Share of pre-tax results | 773 | - | 773 |
| Share of tax charge | (72) | - | (72) |
| Dividend received | (136) | - | (136) |
| Exchange gain | 14 | - | 14 |
| **At 30 June 2022** | **1,838** | **43** | **1,881** |

**Company**

| | Interest in joint ventures £'000 | Other investments £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 30 June 2021 and 30 June 2022 | 178 | 43 | 221 |
| **Provision for impairment** | | | |
| At 30 June 2021 and 30 June 2022 | – | – | – |
| **Net book value** | | | |
| At 30 June 2021 and 30 June 2022 | 178 | 43 | 221 |

# Notes to the Financial Statements
(continued)

## 12. FIXED ASSET INVESTMENTS (continued)

**Subsidiary undertakings**

The Company has investments in the following subsidiary undertakings:

| Name | Country of incorporation | Holding | Registered Office |
|---|---|---|---|
| National Livestock Records Limited | England and Wales (03191216) | 100% ordinary | Fox Talbot House<br>Greenways Business Park<br>Chippenham<br>Wilts SN15 1BN |
| National Milk Laboratories Limited | Scotland (SC 145660) | 100% ordinary | 32 Kelvin Avenue<br>Hillington<br>Glasgow G52 4LT |
| Nordic Star Limited | England and Wales (03231923) | 100% ordinary | Fox Talbot House<br>Greenways Business Park<br>Chippenham<br>Wilts SN15 1BN |
| Genimex Holding BV | The Netherlands (34137102) | 100% ordinary | BrederStraat 62<br>6851 JT Huissen<br>Lingewaard<br>Arnhem<br>Netherlands |

All subsidiary undertakings are held directly by National Milk Records Plc, except for Nordic Star Limited which is held through National Livestock Records Limited.

All subsidiary companies are dormant.

**Joint ventures**

The Company has a participating interest in the following undertaking, and the Group recognises it on an equity accounting basis.

| Name | Country of incorporation | Holding | Registered Office |
|---|---|---|---|
| Independent Milk Laboratories Limited | Ireland (488027) | 50% ordinary | Rathcore<br>Enfield<br>Co Meath<br>EIRE |

Independent Milk Laboratories Limited prepares its accounts to 31 December. Their most recent financial statements cover the year ended 31 December 2021. The amounts included in these consolidated financial statements relate to the year ended 30 June 2022.

# Notes to the Financial Statements

(continued)

## 13. STOCKS

**Group and Company**

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Consumables | **432** | **506** |

## 14. DEBTORS

**Group and Company**

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **AMOUNTS FALLING DUE WITHIN ONE YEAR** | | |
| Trade debtors | 2,164 | 2,108 |
| Amounts due from joint venture | 3 | 2 |
| Other debtors | 53 | 196 |
| Deferred tax asset | 496 | 256 |
| Prepayments and accrued income | 548 | 465 |
| | **3,264** | **3,027** |
| **AMOUNTS FALLING DUE AFTER ONE YEAR** | | |
| Other debtors | 177 | – |
| Deferred tax asset | 611 | 907 |
| | **788** | **907** |

The impairment gain recognised in the group profit or loss for the year in respect of bad and doubtful trade debtors was £117,000 (2021 – £180,000). The impairment gain/(loss) recognised in the company profit or loss for the year in respect of bad and doubtful trade debtors was £117,000 (2021 – £180,000).

The Company has the following deferred tax balances which are offset on the face of the financial statements:

**Group deferred tax**

| | Tax losses £'000 | Accelerated capital allowances £'000 | Total £'000 |
|---|---|---|---|
| At 30 June 2020 | 1,363 | (347) | 1,016 |
| Charge to profit and loss account | 511 | (364) | 147 |
| **At 30 June 2021** | **1,874** | **(711)** | **1,163** |
| Charge to profit and loss account | 233 | (289) | (56) |
| **At 30 June 2022** | **2,107** | **(1,000)** | **1,107** |

Of the net amount, the Company expects that £496,000 of the deferred tax asset is likely to unwind within 12 months of this report.

Deferred tax assets and liabilities have been offset in both periods.

# Notes to the Financial Statements
(continued)

## 15. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

**Group and Company**

| | Notes | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| **AMOUNTS FALLING DUE WITHIN ONE YEAR** | | | |
| Bank loans | 17 | 633 | 566 |
| Obligations under finance leases and hire purchase agreements | 17 | 284 | 265 |
| Trade creditors | | 804 | 716 |
| Other taxation and social security | | 821 | 791 |
| Accruals and deferred income | | 1,162 | 1,353 |
| Other creditors | | 145 | 2 |
| Amounts owed to joint venture | | 40 | 36 |
| | | **3,889** | **3,729** |

## 16. CREDITORS – AMOUNTS FALLING DUE AFTER ONE YEAR

**Group and Company**

| | Notes | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| Bank loans | 17 | 1,259 | 1,892 |
| Obligations under finance leases and hire purchase agreements | 17 | 290 | 426 |
| Other taxation and social security | | 38 | – |
| Other creditors | | 253 | – |
| | | **1,840** | **2,318** |

## 17. BORROWINGS

**Group and Company**

| | Loans 2022 £'000 | Finance leases and hire purchase agreements 2022 £'000 | Total 2022 £'000 |
|---|---|---|---|
| In one year or less, or on demand | 633 | 284 | 917 |
| In more than one year but not more than two years | 651 | 208 | 859 |
| In more than two years but not more than five years | 608 | 82 | 690 |
| | **1,892** | **574** | **2,466** |

# Notes to the Financial Statements

(continued)

## 17. BORROWINGS (continued)

**Group and Company**

| | Loans 2021 £'000 | Finance leases and hire purchase agreements 2021 £'000 | Total 2021 £'000 |
|---|---|---|---|
| In one year or less, or on demand | 566 | 265 | 831 |
| In more than one year but not more than two years | 646 | 240 | 886 |
| In more than two years but not more than five years | 1,196 | 186 | 1,382 |
| In more than five years | 50 | – | 50 |
| | **2,458** | **691** | **3,149** |

The Group has an overdraft facility of £500,000 (2021: £500,000) which is secured by a fixed and floating charge over the assets of the Group.

The group has two principal bank loans;

(a) A loan of £3.5m taken out on 22 June 2017. Monthly repayments commenced on 24 July 2017 and will continue until 23 December 2024. Security is provided via a first legal charge over freehold land and buildings at units 26-29 Laches Close, Four Ashes with a book value of £856,000; an unlimited debenture from National Milk Records PLC. The loan is provided carrying a fixed interest rate charge of 3.54%.

(b) A loan of £0.75m taken out under the Coronavirus Business Interruption Scheme on 8 October 2020. Under the Scheme the Company was provided with a Business Interruption Payment by the Secretary of State which covers all interest fees and charges that would otherwise be payable to the bank for the first twelve months following initial drawdown of the loan. Monthly repayments commenced in November 2021 and will continue for sixty months. Security is provided via a first legal charge over freehold land and buildings at units 26-29 Laches Close, Four Ashes with a book value of £856,000 and an unlimited debenture from National Milk Records PLC. The loan carries a variable interest rate charge of 3.01% plus the Bank of England Base Rate.

Finance lease liabilities of £191,000 (2021: £285,000) relate to motor vehicles and are secured on these vehicles. The average lease term is 5 years. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Two hire purchase agreements were entered into during the previous financial year for the purchase of laboratory equipment and are secured on these assets. A further agreement was entered into in June 2022 for additional laboratory equipment. At 30 June 2022 £383,000 (2021: £406,000) was outstanding for all agreements. All agreements have a term of 3 years. Interest rates were fixed at the time of the agreements and repayments are on a fixed basis. No arrangements have been entered into for contingent rental payments.

# Notes to the Financial Statements

(continued)

## 18. PROVISIONS FOR LIABILITIES

**Group and Company**

| | Product warranties £'000 | Total £'000 |
|---|---|---|
| **At 30 June 2021** | 47 | 47 |
| Charge to profit and loss account | (26) | (26) |
| **At 30 June 2022** | **21** | **21** |

The provision for product warranties relates to expected warranty claims on products sold in the last three years.

## 19. CALLED-UP SHARE CAPITAL

**Company**

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Allotted, called-up and fully paid** | | |
| 21,239,702 (2021: 21,239,702) Ordinary Shares of £0.0025 each | **53** | **53** |

The company has one class of ordinary shares which carry no right to fixed income.

## 20. RESERVES

The profit and loss account represents accumulated total comprehensive income net of dividends paid.

The own shares reserve represents the cost of shares in National Milk Records PLC purchased in the market and valued by an Employee Benefit Trust (EBT), controlled by the Group to satisfy possible employee incentive schemes. The movement in this reserve is shown below:

**Group and company**

| | Number of shares '000 | £'000 |
|---|---|---|
| **At 30 June 2021** | 50 | 33 |
| Employee share option plan now vested unconditionally | (50) | (33) |
| **At 30 June 2022** | **–** | **–** |

The shares which vested during the year are included within debtors.

## 21. DIVIDENDS

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Paid during the year | **314** | **262** |

| | Pence | Pence |
|---|---|---|
| Paid per share | **1.50** | **1.25** |

The directors have proposed a dividend of 2.00 pence per ordinary share payable on 18 November 2022.

# Notes to the Financial Statements

(continued)

## 22. LEASING COMMITMENTS

The Group and Company had the following minimum future commitments under non-cancellable operating leases:

**Group and Company**

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Within one year | 385 | 376 |
| Between two and five years | 599 | 309 |
| In more than five years | – | 4 |
| | **984** | **689** |

## 23. EMPLOYEE BENEFIT OBLIGATIONS

**Defined contribution scheme**

During the year the Group made employer's contributions to the two defined contribution schemes totalling £318,000 (2021: £298,000). Group contributions amounting to £28,000 (2021 – £24,000) were payable to the fund at year end and are included in creditors.

## 24. CONTINGENT LIABILITIES

There were no contingent liabilities at 30 June 2022 (2021: £nil).

## 25. CAPITAL COMMITMENTS

**Group and Company**

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Contracted but not provided for | **656** | **136** |

Capital commitments at 30 June 2022 relate to orders placed with suppliers not fully commissioned at year end:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Plant and equipment | 330 | – |
| Licences | 326 | – |
| Software development | – | 136 |

# Notes to the Financial Statements

(continued)

## 26. RELATED PARTY TRANSACTIONS

Transaction with related parties are undertaken on standard National Milk Records PLC terms and conditions. All balances are settled in cash. No balances are secured and no guarantees have been given or received.

The Group provides services to some of its shareholders however due to their insignificant shareholdings they are not considered to be related parties. One of the directors is also a customer of National Milk Records PLC and services provided to him during the year totalled £8,044 (2021: £6,484). The outstanding balance due from the director at 30 June 2022 was £nil (2021: nil). One of the directors provided professional services to the Group and in the year these totalled £25,535 (2021: nil). At 30 June 2022 the balance owing to him was £4,860 (2021: nil)

### Independent Milk Laboratories Limited

During the year the Group traded with Independent Milk Laboratories Limited (IML). This entity is a Joint Venture investment held by National Milk Records PLC and an entity outside the group. At the year end the following balances arising from sales and purchases of goods and services existed with IML:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Trade debtors | 3 | 2 |
| Trade creditors | 40 | 36 |

During the year the group traded with IML as follows:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Sales to IML | 28 | 31 |
| Purchases from IML | 234 | 222 |

Key management personnel include all directors and a number of senior managers across the group who together have authority and responsibility for planning, directing and controlling the activities of the Group.

The following amounts were paid or payable to key management within the Group.

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Salaries and other short-term benefits | 933 | 857 |
| Contributions paid into defined contribution pension scheme | 39 | 38 |
| Share based payment expense | 152 | 238 |

# Notes to the Financial Statements

(continued)

## 27. SHARE BASED PAYMENT TRANSACTIONS

In December 2021, the company adopted a new long term incentive plan ('LTIP') known as the Executive Incentive Plan 2022-24. The plan has been established to incentivise management to deliver long-term value creation for shareholders and ensure alignment with shareholder interests. Awards under the LTIP will be satisfied by the granting of conditional rights to acquire shares at par value in accordance with the rules of the LTIP and will vest at the end of the performance period subject to the performance targets based around revenue, earnings before interest, taxation, depreciation and amortisation ("EBITDA"), and the delivery of strategic personal objectives. Awards have been made to two Executive Directors and three senior managers. At the grant date, it was anticipated that the Company would satisfy 50% of the awards by payment in cash and the remainder by the issue (or by directing the transfer) of shares. However, the Company may (and at the Remuneration Committee's discretion), opt to satisfy a proportion greater than 50% (up to and including the full amount) of any vested awards in shares only. After assessing the performance for the first year of the plan, the Remuneration Committee has determined the proportion of performance targets that have been met by individuals and the corresponding award for each, and that the award for the first year will be made exclusively in share options. Under the rules of the plan, the value of the award converting to shares is determined by the share price at the balance sheet date for the year, leading to the award for the year ended June 2022 being a total of 252,682 shares, with no cash element.

In December 2020, the company adopted a new share option plan known as the National Milk Records plc Executive Bonus Plan 2021. Two options were granted under that plan which included performance criteria and options would be awarded over shares calculated at a grant price and a proportion of salary determined against the performance criteria. The performance criteria were assessed and options over a total of 242,658 shares have vested, which has since revised upwards to 249,569 following a meeting of the Remuneration Committee in October 2021. The options must be exercised within 365 days of vesting and held for a period of two years.

Earlier in December 2017, the company adopted a share option plan known as the National Milk Records PLC Unapproved Share Option Plan and granted four options under that plan. A total of 226,686 share options were issued at an exercise price of 65 pence. In addition, a further four options were granted under the pre-existing Approved Share Option Plan at an exercise price of 90.5 pence, having a total of 73,314 shares under option. Both schemes vested over 3 years, with no other performance conditions attached, and as such vested unconditionally in December 2020. All eight options have a maximum term of 10 years. Two of the eight options have since lapsed, constituting 50,000 shares, which remain in trust, and may be used to grant or satisfy awards under the company's share option plans.

The Company has used the Black Scholes model to establish a fair value of the share options at the Grant Date. It is a straight-forward formula which is widely accepted in the market. The expected volatility is based on share price movement for the 12 months up to the balance sheet date. The expected life is the average expected year to exercise. The risk-free rate of return is the yield on UK government 2-year bond at the balance sheet date.

# Notes to the Financial Statements

(continued)

## 27. SHARE BASED PAYMENT TRANSACTIONS (continued)

| Number of share options by plan: | 2017 Unapproved Share Option Plan | 2017 Approved Share Option Plan | 2021 Unapproved Executive Bonus Plan | 2022 Unapproved Executive Bonus Plan |
|---|---|---|---|---|
| **Outstanding as at 30 June 2021** | 193,813 | 56,187 | 242,658 | – |
| Granted during the year | – | – | 6,911 | 252,682 |
| Exercised during the year | – | – | – | – |
| Lapsed during the year | – | – | – | – |
| **Outstanding as at 30 June 2022** | **193,813** | **56,187** | **249,569** | **252,682** |
| Exercisable at the end of the year | 193,813 | 56,187 | 249,569 | – |

| Fair valuation: assumptions | 2017 Unapproved Share Option Plan | 2017 Approved Share Option Plan | 2021 Unapproved Executive Bonus Plan | 2022 Unapproved Executive Bonus Plan |
|---|---|---|---|---|
| Grant date | 18-Dec-17 | 18-Dec-17 | 10-Dec-20 | 23-Dec-21 |
| Share price at grant date | 90.50p | 90.50p | 102.5p | 98.5 |
| Exercise price | 65.00p | 90.50p | 10.0p | 0.25p |
| Number of employees | 4 | 4 | 2 | 5 |
| Vesting period (years) | 3 | 3 | 1 | 3 |
| Expected volatility | 6.7% | 6.7% | 2.1% | 1.3% |
| Option life (years) | 10 | 10 | 1 | 10 |
| Expected life (years) | 3 | 7 | 1 | 3 |
| Risk free interest rate | 1.15% | 1.15% | 0.79% | 1.84% |
| Fair value per option | 27.70p | 10.30p | 92.58p | 98.27p |

The Company recognised a total expense of £152,000 (2021: £238,000) in relation to equity-settled share-based payments.

# Notes to the Financial Statements

(continued)

## 28. NET DEBT RECONCILIATION

| | 1 July 2021 £'000 | Cash flows £'000 | New finance leases £'000 | Other non-cash changes £'000 | 30 June 2022 £'000 |
|---|---|---|---|---|---|
| Cash at bank and in hand | 2,105 | (30) | - | - | 2,075 |
| Bank loans | (2,458) | 578 | - | (12) | (1,892) |
| Obligations under finance leases and hire purchase agreements | (691) | 266 | (151) | 2 | (574) |
| | **(1,044)** | **841** | **(151)** | **(10)** | **(391)** |

Non-cash movements relate to:

- Bank loans: during the year previously capitalised loan expenses of £12,000 were amortised to profit or loss.
- Obligations under finance leases and hire purchase agreements: during the year the group entered into one new finance lease and hire purchase agreement in respect of an asset with a total capital value at the inception of the lease of £148,000. This asset was partly funded by cash deposit with the balance being funded by a finance lease and hire purchase agreement.

## 29. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The directors consider that the Group has no single parent company nor a controlling party.