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If you have sold or transferred all of your Ordinary Shares in Finsbury Food Group plc (the “Company”), please forward this document together with the accompanying Form of Proxy to the purchaser or transferee or to the stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. However, such documents should not be forwarded or transmitted in or into the United States of America, Canada, Australia, Japan or the Republic of Ireland or any other territory outside the United Kingdom.

This document, which comprises an AIM admission document drawn up in accordance with the AIM Rules, has been issued in connection with the proposed Acquisition, the Placing and Admission to AIM, a market operated by the London Stock Exchange plc. This document does not contain an offer or constitute any part of an offer to the public within the meaning of sections 85 and 102B of FSMA, the Companies Act 2006 or otherwise. This document is not an approved prospectus for the purposes of section 85 of FSMA and a copy of it has not been, and will not be, delivered to or approved by the Financial Conduct Authority (the “FCA”) in accordance with the Prospectus Rules or delivered to or approved by any other authority which could be a competent authority for the purposes of the Prospectus Directive. In particular, it should be remembered that the price of securities and the income from them can go down as well as up. The AIM Rules are less demanding than those of the Official List. **Each AIM company is required pursuant to the AIM Rules to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on Admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. The London Stock Exchange has not itself examined or approved the contents of this document.** It is emphasised that no application is being made for the Ordinary Shares to be admitted to the Official List or to any other recognised investment exchange

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the official list of the United Kingdom Listing Authority (the “Official List”). A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.

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## **Finsbury Food Group plc**

*(Incorporated and registered in England and Wales with registered number 204368)*

### **Acquisition of Fennel Acquisition Limited Placing of 59,322,034 Placing Shares at 59p per Ordinary Share Admission of the Enlarged Share Capital to trading on AIM and Notice of General Meeting**

**Nominated Adviser and Broker**



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**Your attention is drawn to the letter from the Chairman of the Company which is set out on pages 9 to 19 (inclusive) of this document and which recommends you to vote in favour of the Resolutions to be proposed at the General Meeting. For a discussion of risks and other matters that should be considered in connection with the Transaction and an investment in the Company, prospective investors should read the section entitled “Risk Factors” set out in Part II of this document.**

Notice of the General Meeting to be held at the offices of CMS Cameron McKenna LLP, Mitre House, 160 Aldersgate Street, London EC1A 4DD at 10.00 a.m. on 29 October 2014, is set out at the end of this document. The accompanying Form of Proxy for use in connection with the General Meeting should be completed by Shareholders and returned as soon as possible but, in any event, so as to be received by the Registrars no later than 10.00 a.m. on 27 October 2014 (or, in the case of an adjournment of the General Meeting, not later than 48 hours before the time fixed for the holding of the adjourned meeting). The completion and return of a Form of Proxy will not preclude Shareholders from attending and voting at the General Meeting should they so wish.

Application will be made to the London Stock Exchange for the Enlarged Share Capital to be admitted to trading on AIM. The Acquisition and the Placing is conditional, *inter alia*, on Admission taking place on or before 30 October 2014 (or such later date as the Company and Cenkos Securities plc (“Cenkos”) may agree). The Placing Shares will rank *pari passu* in all respects with the issued Ordinary Share capital of the Company on Admission including the right to receive all dividends or other distributions declared, paid or made after Admission, save that the Placing Shares will not rank for the final dividend of the Company that will be paid on 10 December 2014.

A copy of this document will be available, free of charge, during normal business hours on any weekday (except Saturdays, Sundays and public holidays), at the registered office of the Company for a period of one month from the date of Admission.

Cenkos is authorised and regulated in the United Kingdom by the FCA and is advising the Company and no one else in connection with the Placing and Admission (whether or not a recipient of this document), and is acting exclusively for the Company as nominated adviser and broker for the purpose of the AIM Rules. Cenkos will not be responsible to any person other than the Company for providing the protections afforded to its customers, nor for providing advice in relation to the Placing and Admission or the contents of this document. In particular, the information contained in this document has been prepared solely for the purposes of the Placing and Admission and is not intended to inform or be relied upon by any subsequent purchasers of Ordinary Shares (whether on or off exchange) and accordingly no duty of care is accepted in relation to them. Without limiting the statutory rights of any person to whom this document is issued, no representation or warranty, express or implied, is made by Cenkos as to the contents of this document. No liability whatsoever is accepted by Cenkos for the accuracy of any information or opinions contained in this document, for which the Directors and the Company are solely responsible, or for the omission of any information from this document for which it is not responsible.

## **FORWARD-LOOKING STATEMENTS**

**This document contains forward looking statements relating to the Company's future prospects, developments and strategies, which have been made after due and careful enquiry and are based on the Directors' current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Forward-looking statements are identified by their use of terms and phrases such as "believe", "could", "envisage", "estimate", "intend", "may", "plan", "will" or the negative of those, variations or comparable expressions, including references to assumptions. These forward-looking statements are subject to, *inter alia*, the risk factors described in Part II of this document. The Directors believe that the expectations reflected in these statements are reasonable, but may be affected by a number of variables which could cause actual results or trends to differ materially. Each forward-looking statement speaks only as of the date of the particular statement.**

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## ADMISSION STATISTICS

Number of Existing Ordinary Shares	66,904,284
Placing Price	59 pence
Number of Placing Shares being issued pursuant to the Placing	59,322,034
Gross Proceeds of the Placing	£35.0 million
Number of Ordinary Shares in issue on Admission	126,226,318
Percentage of the current issued Ordinary Share capital being placed pursuant to the Placing	88.7 per cent.
Market capitalisation on Admission ( <i>approximately</i> )	£74.5 million
AIM 'ticker'	FIF.L
SEDOL	0918642
ISIN number	GB0009186429

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of this document	10 October 2014
Latest date and time for receipt of completed Forms of Proxy	10.00 a.m. on 27 October 2014
General Meeting	10.00 a.m. on 29 October 2014
Completion of the Acquisition	30 October 2014
Admission and dealings in the Enlarged Share Capital commence on AIM	30 October 2014
CREST accounts credited for Placing Shares in uncertificated form	30 October 2014
Despatch of definitive share certificates, where applicable	by 13 November 2014

*References to time are to London time unless otherwise stated. Each of the dates in the above timetable is subject to change without further notice. Any such change will be notified by an announcement on a Regulatory Information Service.*

## DEFINITIONS

In this document, where the context permits, the expressions set out below shall bear the following meaning:

<b>“Act”</b>	the Companies Act 2006, as amended from time to time
<b>“Acquisition”</b>	the proposed acquisition of the entire issued share capital of Fennel pursuant to the terms of the Acquisition Agreement
<b>“Acquisition Agreement”</b>	the conditional agreement dated 9 October 2014 between the Company and the Vendors relating to the Acquisition, details of which are set out in paragraph 11.1.1 of Part VI of this document
<b>“Admission”</b>	the admission to trading on AIM of the Existing Ordinary Shares and the Placing Shares
<b>“Admission Document” or “this document”</b>	this document
<b>“AIM”</b>	the market of that name operated by the London Stock Exchange
<b>“AIM Rules”</b>	the AIM Rules for Companies published by the London Stock Exchange from time to time which set out the rules and responsibilities in relation to companies whose shares are admitted to trading on AIM
<b>“AIM Rules for Nominated Advisers”</b>	the AIM Rules for Nominated Advisers setting out the eligibility, ongoing obligations and certain disciplinary matters in relation to nominated advisers published by the London Stock Exchange as amended from time to time
<b>“Articles”</b>	the articles of association of the Company
<b>“Audit Committee”</b>	the audit committee of the Board
<b>“Business Day”</b>	a day, other than a Saturday or Sunday, on which banks are open for commercial business in the City of London
<b>“certificated” or “certificated form”</b>	the description of a share or other security which is not in uncertificated form (that is not in CREST)
<b>“Company” or “Finsbury Food”</b>	Finsbury Food Group plc, a company incorporated in England and Wales with company registration number 204368
<b>“Completion”</b>	completion of the Transaction
<b>“CREST”</b>	the relevant system (as defined in the CREST Regulations) for paperless settlement of share transfers and the holding of shares in uncertificated form which is administered by Euroclear UK & Ireland Limited
<b>“CREST Manual”</b>	the compendium of documents entitled CREST Manual issued by CRESTCo from time to time and comprising the CREST Reference Manual, the CREST Central Counterparty Service Manual, the CREST International Manual, the CREST Rules, CCSS Operations Manual, and the CREST Glossary of Terms
<b>“CREST Regulations”</b>	the Uncertificated Securities Regulations 2001
<b>“CREST Rules”</b>	the rules, regulations, procedures, facilities and requirements of Euroclear UK & Ireland Limited as operator (within the meaning of the CREST Regulations) of the CREST system
<b>“CREST UK System”</b>	the facilities and procedures of the relevant systems of which CRESTCo is the Approved Operator pursuant to the CREST Regulations
<b>“CRESTCo”</b>	Euroclear UK & Ireland Limited, the operator of the CREST UK System or such other person as may for the time being be approved by HM Treasury as operator under the CREST Regulations

<b>“Directors” or “Board”</b>	the directors of the Company whose names are set out on page 8 of this document, or any duly authorised committee thereof, and “Director” means any one of them
<b>“Disclosure and Transparency Rules” or “DTRs”</b>	the rules in the publication of that title made by the FCA in accordance with section 73A of FSMA
<b>“EBITDA”</b>	earnings before interest, tax, depreciation and amortisation
<b>“Eliot Luxco”</b>	Eliot Luxembourg Holdco S.à.r.l., the principal shareholder of Fennel
<b>“Enlarged Group”</b>	the Group, including the Fletchers Group with effect from completion of the Acquisition
<b>“Enlarged Share Capital”</b>	the Ordinary Shares in issue immediately following Admission, comprising the Existing Ordinary Shares and the Placing Shares
<b>“Executive Directors”</b>	John Duffy and Stephen Boyd
<b>“Existing Ordinary Shares”</b>	the 66,904,284 Ordinary Shares in issue at the date of this document
<b>“Fennel”</b>	Fennel Acquisition Limited, a company incorporated in England and Wales with company registration number 05998318, being the ultimate parent company of Fletchers
<b>“Financial Services and Markets Act” or “FSMA”</b>	the Financial Services and Markets Act 2000 (as amended)
<b>“FCA”</b>	the Financial Conduct Authority
<b>“Fletchers” or the “Fletchers Group”</b>	Fennel and its subsidiaries
<b>“Form of Proxy”</b>	the form of proxy accompanying this document for use in connection with the General Meeting
<b>“Group”</b>	the Company and its subsidiary undertakings
<b>“General Meeting”</b>	the general meeting of the Company to be held at the offices of CMS Cameron McKenna LLP at Mitre House, 160 Aldersgate Street, London EC1A 4DD at 10.00 a.m. on 29 October 2014 and any adjournment thereof to be held for the purpose of considering and, if thought fit, approving the Resolutions
<b>“HMRC”</b>	Her Majesty’s Revenue and Customs
<b>“IFRS”</b>	International Financial Reporting Standards, as adopted for use in the European Union
<b>“Listing Rules”</b>	the Listing Rules of the FCA
<b>“London Stock Exchange”</b>	London Stock Exchange plc
<b>“New Debt Facilities”</b>	the debt facilities to be made available to the Enlarged Group pursuant to the agreement between the Company and HSBC Bank plc and Lloyds Banking Group plc, details of which are set out in paragraph 11.1.6 of Part VI of this document
<b>“Nominated Adviser”, “Nomad” or “Cenkos”</b>	Cenkos Securities plc, a company incorporated in England and Wales with company registration number 5210733 and with its registered office at 6.7.8 Tokenhouse Yard, London EC2R 7AS
<b>“Notice of General Meeting”</b>	the notice convening the General Meeting, which is set out at the end of this document
<b>“Official List”</b>	the Official List maintained by the FCA in accordance with section 74(1) of FSMA for the purpose of Part VI of FSMA
<b>“Ordinary Shares” or “Shares”</b>	ordinary shares of one pence each in the capital of the Company and including, as the context may require, the Existing Ordinary Shares and/or the Placing Shares

<b>“Placees”</b>	subscribers for the Placing Shares, as procured by Cenkos on behalf of the Company pursuant to the Placing Agreement
<b>“Placing”</b>	the conditional issue and allotment at the Placing Price of the Placing Shares to the Placees as further described in Part I of this document
<b>“Placing Agreement”</b>	the conditional agreement dated 9 October 2014 between Cenkos and the Company relating to the Placing, further details of which are set out in paragraph 11.1.3 of Part VI of this document
<b>“Placing Price”</b>	59 pence per Placing Share
<b>“Placing Shares”</b>	the 59,322,034 new Ordinary Shares to be issued to Placees pursuant to the Placing
<b>“Prospectus Rules”</b>	the Prospectus Rules of the FCA
<b>“Registrar”</b>	Capita Asset Services or any other share registrar appointed by the Company from time to time
<b>“Remuneration Committee”</b>	the remuneration committee of the Board
<b>“Resolutions”</b>	the resolutions set out in the Notice of General Meeting
<b>“SDRT”</b>	stamp duty reserve tax
<b>“Share Option Schemes”</b>	the Group’s Long Term Incentive Plan 2006 and the Sharesave Plan, established by the Company, the terms of which are summarised in paragraph 19 of Part VI
<b>“Shareholders”</b>	holders of Ordinary Shares from time to time
<b>“Sharesave Plan”</b>	the Finsbury Food Group Sharesave Plan, further details of which are set out in paragraph 19.2 of Part VI of this document
<b>“Statutes”</b>	every statute (including any statutory instrument, order, regulation or subordinate legislation made under it) concerning companies that are incorporated in England and Wales to the extent that it is for the time being in force or (where the context requires) was in force at a particular time, including the Companies Act 1985, the Companies Act 2006, the Insolvency Act 1986 and the CREST Regulations
<b>“subsidiary”</b>	has the meaning given in section 1159 of the Act
<b>“subsidiary undertaking”</b>	has the meaning given in section 1162 of the Act
<b>“Takeover Code”</b>	the City Code on Takeovers and Mergers
<b>“Takeover Panel”</b>	the Panel on Takeovers and Mergers
<b>“Transaction”</b>	the Acquisition, the Placing and Admission
<b>“UKLA”</b>	the United Kingdom Listing Authority
<b>“United Kingdom” or “UK”</b>	the United Kingdom of Great Britain and Northern Ireland
<b>“Vendors”</b>	the vendors of Fennel, as defined in the Acquisition Agreement

## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors</b>	Peter Baker John Duffy Stephen Boyd Paul Monk Raymond Duignan Edward Beale	<i>Non-Executive Chairman</i> <i>Chief Executive Officer</i> <i>Group Finance Director</i> <i>Non-Executive Deputy Chairman</i> <i>Non-Executive Director</i> <i>Non-Executive Director</i>
<b>Company Secretary</b>	City Group P.L.C 6 Middle Street London EC1A 7JA	
<b>Registered Office of the Company</b>	Maes y Coed Road Cardiff CF14 4XR	
<b>Nominated Adviser and Broker</b>	Cenkos Securities plc 6.7.8 Tokenhouse Yard London EC2R 7AS	
<b>Auditors to the Company</b>	KPMG LLP 3 Assembly Square Britannia Quay Cardiff Bay CF10 4AX	
<b>Reporting Accountants to the Company</b>	KPMG LLP 100 Temple Street Bristol BS1 6AG	
<b>Solicitors to the Company</b>	CMS Cameron McKenna LLP Mitre House 160 Aldersgate Street London EC1A 4DD	
<b>Solicitors to the Nominated Adviser and Broker</b>	Reed Smith LLP The Broadgate Tower 20 Primrose Street London EC2A 2RS	
<b>Registrars</b>	Capita Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	

## PART I

### LETTER FROM THE CHAIRMAN OF FINSBURY FOOD GROUP PLC

(Incorporated and registered in England and Wales with registered number 204368)

*Directors:*

Peter Baker (*Non-Executive Chairman*)  
John Duffy (*Chief Executive Officer*)  
Stephen Boyd (*Group Finance Director*)  
Paul Monk (*Non-Executive Deputy Chairman*)  
Raymond Duignan (*Non-Executive Director*)  
Edward Beale (*Non-Executive Director*)

*Registered Office:*

Maes y Coed Road  
Cardiff  
CF14 4XR

10 October 2014

*To Shareholders and, for information only, to the holders of options over Ordinary Shares*

Dear Shareholder

**Aquisition of Fennel Acquisition Limited**  
**Placing of 59,322,034 Placing Shares at 59p per Ordinary Share**  
**Admission of the Enlarged Share Capital to trading on AIM**  
**and**  
**Notice of General Meeting**

#### INTRODUCTION

Your Board announced today that the Company has conditionally agreed, subject, *inter alia*, to Shareholder approval at the General Meeting, to acquire Fletchers by way of an acquisition of the entire issued share capital of Fennel Acquisition Limited. The total consideration payable by the Company in respect of the Acquisition (including amounts payable in respect of repayment of outstanding shareholder and bank debt) is £56.0 million payable in cash at Completion. In order to fund the consideration the Company has also today announced it is raising £35.0 million (before expenses) by way of the Placing of 59,322,034 Placing Shares at 59 pence per Ordinary Share in order to finance part of the consideration due under the Acquisition Agreement. In addition, the Company has also entered into an agreement in respect of the New Debt Facilities to finance the remainder of the consideration due under the Acquisition Agreement. The New Debt Facilities will also be used to fund the ongoing working capital requirements of the Enlarged Group.

In view of the size of the Acquisition relative to the Company, the Acquisition is classified as a reverse takeover under the AIM Rules and is therefore conditional, *inter alia*, on the approval of Shareholders. Such approval is being sought at the General Meeting to be held at the offices of CMS Cameron McKenna LLP, Mitre House, 160 Aldersgate Street, London EC1A 4DD at 10.00 a.m. on 29 October 2014.

The Transaction is conditional, *inter alia*, upon the passing of the Resolutions, all of which must be passed by Shareholders at the General Meeting in order for the Transaction to be implemented. The purpose of this document is to explain the background to and reasons for the Transaction, why the Directors believe that the Acquisition and the Placing are in the best interests of the Company and its Shareholders as a whole and to recommend that you vote in favour of the Resolutions. This document also provides information on Finsbury Food, the Fletchers Group and the future strategy of the Enlarged Group.

#### INTRODUCTION TO FINSBURY FOOD

Finsbury Food is a leading manufacturer of celebration cake and also manufactures speciality bread. Within its cake business, the Group's focus is premium and celebration cakes plus low fat cake slices. Within its bread business, the Group manufactures artisan and organic bread and also morning

goods. Finsbury Food is one of the largest manufacturers of Ambient Packaged Cake (excluding In Store Bakery) in the UK.

In 2002, Finsbury Food, a cash shell at the time, acquired Memory Lane Cakes Limited by way of a reverse takeover and subsequently acquired Nicholas & Harris Limited in February 2003. United Central Bakeries was acquired by the Company in November 2005 which, amongst other products, manufactured a range of gluten free speciality breads and morning goods. The Livwell business was formed by the Company following the purchase of the trade and assets of Yorkshire Farm Bakery and A&P Foods in April 2008. The Livwell business was a dedicated gluten free site. Finsbury Food acquired Lightbody Group Limited via a reverse takeover in February 2007. The acquisition of Lightbody Group Limited significantly increased the Cake business of the Company. The Company has since grown organically by launching new products and reinforcing its licensed brand portfolio.

## **BACKGROUND TO AND REASONS FOR THE ACQUISITION**

On 27 February 2013, the Company sold its Free From business (consisting of Livwell Bakery and United Central Bakeries) for a total value of approximately £21.0 million to focus on its core cake and bread businesses. The sale of Free From represented a shift in the Company's strategy from a transitional period focused on debt reduction to a new period of financial stability and the pursuit of growth. Since the disposal, the Company has reported strong financial results, as most recently evidenced by the audited results for the twelve months ended 28 June 2014, and has generated cash to pay down debt and resume the payment of dividends. The Company has also embarked on significant investment to achieve organic growth.

The Directors have believed since the sale of Free From that it is appropriate for the Company to pursue focussed, complementary, bolt on acquisitions to increase the Group's scale in the UK bakery market.

The Fletchers group of bakeries produces and supplies a wide range of fresh and frozen bakery products, with a primary focus on morning goods and bread. Fletchers' products are distributed to leading UK grocery retailers and foodservice customers. The Directors believe the Acquisition is in line with the acquisition strategy of the Company, and allows the Company to increase its scale as well as providing the following strategic and financial benefits:

- complementary product ranges, bringing together Finsbury Foods' cake business, the Fletchers and Finsbury Food bread businesses and Fletchers' morning goods product range;
- new distribution capability, with the introduction of foodservice distribution channels;
- retail customer diversification across all the key UK supermarkets, as well as a wide range of foodservice end customers covering restaurants, coffee shops, bars and fast food outlets;
- operational synergy opportunities between group companies and new customers and channels;
- financial cost synergies in direct and indirect areas due to increased scale;
- the benefits of significant capital investment within Fletchers manufacturing operations and historical tax losses;
- the collective talent of the respective management teams who will seek to ensure the successful integration and growth of the two businesses; and
- a multi-channel platform for further acquisitions in due course.

The Enlarged Group will be one of the largest speciality bakery groups in the UK with expected annual sales approaching £300 million, strong cash-flow resilience and dividend capability.

## **THE FINSBURY FOOD BUSINESS**

### **The Business**

Finsbury Food consists broadly of two parts: UK Bakery and Overseas. Within UK Bakery there are the following businesses:

- Lightbody of Hamilton Ltd ('Lightbody'), based in Hamilton, employs over 1,100 people and is the UK's largest supplier of celebration cakes with Disney, Nestle, WeightWatchers and Thorntons products within its licenced portfolio as well as own label cake. Lightbody also produces a wide range of sweet snacking products, slices and in store bakery bites, a number of which are under our licensed brands.

- Memory Lane Cakes Ltd ('Memory Lane'), based in Cardiff, employs around 800 permanent staff as well as agency staff at high promotional and seasonal peak times. Memory Lane is one of the leading manufacturers of UK retailers' premium own label cake ranges. Memory Lane also produces under a number of licensed brands including Nestle, Thorntons, Weightwatchers and its own Memory Lane brand.
- Nicholas and Harris Ltd ('N&H'), based in Salisbury, employs around 280 people and produces a range of speciality breads to UK retailers. N&H is focussed on 'clean label' breads, rolls and buns. Within its brand portfolio, N&H has Vogel's seeded bread, Crank's Organic and Village Bakery Rye bread.

The Overseas business consists solely of a 50 per cent. shareholding in Lightbody Stretz Ltd, which supplies and distributes the Group's UK manufactured products and third party products, primarily to Europe.

### **Brands and Licences**

Finsbury Food is primarily a cake and bread retailer branded business with sales of retailer own label products accounting for around 61 per cent. of total revenue in the financial year ended 28 June 2014. The balance represents licensed brands and own brands under the Group's control, including Memory Lane, Lightbody and Livlife. Key licences to manufacture and distribute include WeightWatchers, Thorntons and Nestle Confectionery, while key brands used especially for celebration cakes include Disney, Peppa Pig, Hello Kitty, Spiderman, Fireman Sam, Skylanders and One Direction. N&H bakery also has three brands which it markets under long-term licence agreements, all of which are distributed across the UK. Vogel is a 'no artificial additives' seeded bread, Crank's is the Group's 'proper Organic Bread' brand, while The Village Bakery Melmerby brand is an organic rye bread brand.

Livlife is a new brand launched by the Group in July 2013. Livlife has half the carbohydrates of regular bread and is aimed at the growing number of consumers who are trying to reduce and control the amount of carbohydrates that they eat.

### **Summary Financial Information on Finsbury Food**

For the 52-week period ending 28 June 2014, Finsbury Food reported revenue from continuing operations of £175.7 million (2013: £176.6 million) with adjusted profit before tax up 18 per cent. to £6.5 million (2013: £5.5 million). Total net debt including deferred consideration payable was £8.8 million (2013: £7.4 million), despite a 48 per cent. increase in capital investment spend during the period to £6.2 million (2013: £4.2 million). Adjusted diluted earnings per share was 6.3p (2013: 5.9p). The Directors proposed a final dividend of 0.75 pence per Ordinary Share, taking the total dividend for the year to 1 pence per Ordinary Share, (2013: 0.75 pence per Ordinary Share) a 33 per cent. increase year on year. A summary of Finsbury Food's historical consolidated financial information covering the three years ended 28 June 2014 is set out in Part III of this document.

## **THE FLETCHERS GROUP**

### **The Business**

The Fletchers group of bakeries produces and supplies fresh and frozen bakery products to leading UK grocery retailers and UK foodservice customers. Fletchers has well-established, long-standing, trusted relationships with the leading retail customers as well as foodservice operators and a foodservice brand, Kara, sold to over 300 foodservice customers.

The Fletchers Group operates the following businesses:

- Fletchers bakery ('Fletchers'), based in Sheffield, produces a range of buns and rolls, muffins (American and English), bread, baguettes, doughnuts, scones and cupcakes for both the retail and foodservice sectors;
- Grain d'Or ('Grain d'Or'), based in London, produces a range of Viennoiserie, pastries, muffins, Italian and speciality breads for both the retail and foodservice sectors; and
- Kara bakery ('Kara'), based in Manchester, produces a range of frozen buns, rolls and dough balls for the foodservice sector.

As set out above, Fletchers Group operates in both the retail and foodservice sector with revenue being split between those end markets approximately 54:46 for the financial year ended 29 March 2014. Foodservice has increased as a percentage over the past three years as a key retail customer has

reduced its purchases and foodservice sales have increased. Foodservice sales are typically at a higher margin than retail sales.

### **Brands and Licences**

Kara is the Fletchers Group's foodservice brand, dedicated to foodservice customers. Branded products represented 21 per cent. of total revenue in the financial year ended 29 March 2014. The balance represents fresh and frozen bakery products sold to leading supermarkets and foodservice customers as own labels. The Directors believe the Kara brand is well respected within the industry.

### **Summary Financial Information on Fletchers Group**

In the year to 29 March 2014, Fennel reported revenue of £95.0 million (2013: £99.1 million), with total profit before interest, tax, depreciation and exceptional items of £6.0 million (2013: £6.2 million). The net assets of Fennel were down 7 per cent. to £11.3 million (2013: £12.2 million) as Fennel took on further banking facilities in the year. A summary of Fennel Acquisition Limited's historical consolidated financial information covering the three years ended 29 March 2014 is set out in Part IV of this document.

### **THE ENLARGED GROUP'S TARGET MARKETS**

Finsbury Food's key historical market has been the UK retail ambient packaged cake market. Fletchers Group does not address this market. The UK retail ambient packaged cake market (excluding In Store Bakery) in the UK is a market valued at £924 million (Source: *Symphony IRI w/e 21 June 2014*). The past 12 months has seen value of sales within this market decline by 2.0 per cent. and unit sales decline by 4.3 per cent.

The UK retail bakery sector is estimated to be worth approximately £4.1 billion during 2014 (forecast) and is made up of sliced bread and morning goods sub-sectors. Both Finsbury Food, through its subsidiary N&H, and Fletchers Group supply products to the retail morning goods sub-sector. The retail morning goods sub-sector, which predominantly comprises the major retail grocers, has been growing at approximately 4 per cent. per annum and is expected to reach £2 billion of sales in 2014. The market for UK retail bakery products is projected to remain broadly flat over the next few years.

The UK foodservice bakery sector is worth approximately £900 million per annum, 70 per cent. of which is morning goods. For the year ended 29 March 2014, approximately 46 per cent. of Fletchers Group revenue was through the UK foodservice market. Finsbury Food had no sales within the sub-sector. The Directors estimate that 60 per cent. of foodservice bakery sales are through quick service restaurants, coffee shops, bars and fast food outlets. Due to the service element of the market, foodservice products tend to achieve a higher margin.

The Directors believe that by servicing both the cake and bakery market, through both retail and foodservice, the Enlarged Group will have a diversified product and customer offering.

### **THE ENLARGED GROUP STRUCTURE**

The Enlarged Group will comprise UK Bakery and Overseas. UK Bakery will comprise both the existing UK sector businesses at Memory Lane in Cardiff, Lightbody near Glasgow and N&H at Salisbury as well as the new businesses, Fletchers Group Bakery in Sheffield, Grain D'Or in London and Kara in Manchester. The Overseas business will remain unchanged.

The Enlarged Group's headquarters and registered office will be located at Finsbury Food's existing head office in Cardiff. Following preliminary analysis undertaken by the Directors, it is envisaged that areas of overlapping corporate, commercial, and operational and support functions will be identified as part of the integration review and decisions will be taken to implement rationalisation.

### **ENLARGED GROUP SALES CHANNELS**

Cake and bakery products are delivered direct to retail customers and to a small number of the larger foodservice customers. The remaining foodservice customer deliveries are collated centrally at a third party facility and dispatched in mixed pallets.

Product sales are typically more diverse in the foodservice sector as smaller customers seek a narrower breadth of supply chain and therefore a more complete range of offerings. Margins in the foodservice sector are typically higher than those achieved in the retail sector due to a combination of

the more complete service offering being provided and a higher proportion of branded product sales which attract a premium.

## **STRATEGY OF THE ENLARGED GROUP**

The Enlarged Group will be one of the largest speciality bakery groups in the UK, with sales approaching £300 million and a broad spread of customers across the food retail and foodservice channels. The Enlarged Group will have the capability and expertise to produce a wide range of speciality bakery products and will focus on the quality end of this product spectrum.

The Enlarged Group's strategy will focus on creating value by driving revenue and operational efficiency. The Enlarged Group will seek to:

- deliver organic growth via the enhanced product range, innovation and broader customer and channel relationships;
- improve operational efficiencies via supply chain optimisation and capital investment; and
- energise and enable its people in a performance driven culture.

The Directors have identified immediate business priorities, which provide a focus on integration, delivery of synergies and business optimisation whilst also growing underlying business performance. With a stronger balance sheet, the Directors expect the Enlarged Group to be better positioned to pursue new licencing arrangements, joint ventures and stronger customer and brand relationships.

The Directors' medium term strategy is to develop the Enlarged Group into a UK bakery leadership position targeting sales growth via organic growth and further acquisitions.

## **ENLARGED GROUP CUSTOMERS**

The Enlarged Group supplies all of the key UK supermarkets. The foodservice customers of the Enlarged Group include Brakes and 3663 and a wide range of restaurants, coffee shops, bars and fast food outlets as end customers.

## **CURRENT TRADING AND PROSPECTS**

### ***Finsbury Food***

The results of the Company for the year ended 28 June 2014 are summarised in Part III of this document and were published on 22 September 2014. As set out in these results the Company achieved an increase in adjusted continuing profit before tax of 18 per cent. to £6.5 million (2013: £5.5 million) on broadly flat revenue of £175.7 million (2013: £176.6 million). The Company increased capital investment spend by 48 per cent. to £6.2 million while total net debt increased marginally, including deferred consideration payable, to £8.8 million (2013: £7.4 million). The Directors increased the proposed final dividend to 0.75 pence per Ordinary Share, taking the total dividend for the financial year to 1 pence per Ordinary Share (2013: 0.75 pence per Ordinary Share) a 33 per cent. increase year on year. A summary of Finsbury Food's historical consolidated financial information covering the three years ended 28 June 2014 is set out in Part III of this document.

Trading within Finsbury Food post year has remained positive and the Group remains focused on driving sales growth via additional promotional and innovation investment. Both the capital investment and overhead reduction programmes completed in the previous financial year have complemented lagging input inflation recovery which has now been completed. Group sales are circa 5 per cent. ahead of prior year through a combination of volume, mix and price with some production benefits from the increased volumes and little discernible change in inventories.

### ***Fletchers Group***

The results for Fennel for the year ended 29 March 2014 are set out in Part IV of this document. As set out in these results Fennel reported revenue of £95.0 million (2013: £99.1 million), with total profit before interest, tax, depreciation and exceptional items of £6.0 million (2013: £6.2m).

Earnings growth in the first six months of the Fletchers Group current financial year has been strong. The Fletchers Group is seeing the benefits of substantial capital expenditure in recent years and has secured a number of significant contracts since the 29 March 2014 financial year-end which will benefit sales in the second half. Production is benefiting from the new capital equipment with selling prices and inventories remaining in line with prior year.

The Fletchers Group's unaudited half yearly results to 30 September 2014 will be published by the Enlarged Group before 31 December 2014.

## **FINANCIAL REPORTING TIMETABLE**

The Enlarged Group will have a financial year-end of 30 June.

The Enlarged Group expects to publish unaudited financials for the six months to 31 December 2014 in March 2015. Further, the Enlarged Group expects to publish audited financials for the twelve months to 30 June 2015, in line with AIM Rule 19, no later than six months after the end of the financial year.

The Company has included audited financials for the twelve months to 29 March 2014 on Fennel in Part IV of this document. In accordance with AIM Rule 18, the Directors are required to release unaudited financial information relating to the Fletchers Group for the six months to 30 September 2014 no later than three months after the end of this period. Following the publication of these unaudited financials on Fennel, the Enlarged Group will report every six months on a consolidated basis only, in line with the Company's reporting timetable set out above.

## **DIVIDEND POLICY**

On 22 September 2014, the Directors proposed a final dividend of 0.75 pence per Ordinary Share to Shareholders of Finsbury Food on the register on 14 November 2014. Due to the Transaction, the Directors have brought forward the record date from 14 November 2014 to 24 October 2014. The payment date will remain unchanged, being 10 December 2014. Placees will not be eligible for the final dividend.

Following Completion, it is expected that the Enlarged Group will adopt a progressive dividend policy with an initial dividend cover ratio of approximately 3.5 times calculated on an earnings per share basis. The Board will decide the absolute level of interim and final dividends to be paid at the relevant time in light of the performance and cash flow of the Enlarged Group.

The Enlarged Group will operate with a June financial year-end; it is therefore expected that interim dividends for the period to December will be declared in March and paid in April and final dividends for the period to June will be declared in September and paid in December. Assuming that the Acquisition will be completed in October 2014, the first interim dividend to be paid by the Enlarged Group will (subject to the usual considerations), therefore, be declared in March 2015.

## **DIRECTORS**

At Admission, the Board will remain unchanged and will comprise two executive directors and four non-executive directors. The biographical details of each member of the Board is set below:

### **Executive Directors**

#### ***John Duffy, Chief Executive Officer, aged 49***

Following an engineering degree and initial career with Shell International, John Duffy completed a full time MBA and has spent the subsequent 20 years within the food manufacturing sector. Manufacturing and Logistics Director roles at Mars Inc. were followed by the role of Operations Director at Golden Wonder in 2000 and Managing Director of WT Foods' largest chilled foods subsidiary, Noon Products, before and after its sale to Kerry Foods in 2005 and he has non-executive experience in the broader consumer goods industry. John was appointed interim Chief Operating Officer at Finsbury Food from September 2008 for 12 months and took over as Chief Executive Officer with effect from 30 September 2009.

#### ***Stephen Boyd, Group Finance Director, aged 52***

Steve was appointed Group Finance Director on 18 January 2010. Previously Steve was Group Finance Director at Golden Wonder and subsequent to that as Group Finance Director and Chief Operating Officer at WT Foods. Steve worked with John Duffy at both Golden Wonder and WT Foods.

### **Non-Executive Directors**

#### ***Peter Baker, Non-Executive Chairman, aged 61***

Peter has over 30 years' senior Chief Executive Officer and directorships experience within the global bakery and consumer packaged goods industry. Most recently, Peter was Managing Director of Maple Leaf Bakery from 2009 to 2013, following the sale of La Fornaia Bakeries, of which he was the Chief Executive Officer. Under his leadership, La Fornaia sales and profits increased significantly, driven by the introduction of innovative new products. Prior to these roles Peter held senior Chief

Operating Officer and director positions at RHM Consumer Brands and was Managing Director of both British Bakeries and Rank Hovis Mills. Peter was previously Non-Executive Director at Jordans Cereals, now a part of Associated British Foods. Peter also served as Vice President CIAA (confederation of the food and drink industries of the EU).

***Paul Monk, Non-Executive Deputy Chairman, aged 57***

Paul Monk was appointed to the Board on 9 December 2002 and elected as joint Deputy Chairman in February 2007. Paul has extensive experience in the food manufacturing industry, was the Chief Executive of Golden Wonder and his other experience includes roles with Marks & Spencer and the Mars Corporation. Paul also holds other non-executive roles within the food industry.

***Raymond Duignan, Non-Executive Director, aged 51***

Raymond was appointed a Director on 15 July 2013. He has extensive industry experience having set up a specialist investment bank, Stamford Partners, in the mid-1990s advising the European food and drink industries which became a market leader in food and drink transactions in Europe. Clients ranged from Unilever, Nestle and Mars to Jordans, Innocent and leading private equity firms. Raymond is currently a member of the Advisory Boards of Tate & Lyle Ventures, the venture arm of the FTSE100 group, which invests globally in the food ingredient and food technology sectors, and also Active Private Equity which invests in the European consumer sector.

***Edward Beale, Non-Executive Director, aged 54***

Edward Beale was appointed a Director on 29 August 2002. Edward is a Chartered Accountant and the Chief Executive of City Group Plc, the Group's Company Secretary. Edward was a member of the Accounting Standards Board and subsequently the Accounting Council of the FRC for six years to August 2013. Edward is a member and former Chairman of the QCA's Corporate Governance Committee. Edward is the chairman of Marshall Monteagle plc and a non-executive director of a number of other companies. Edward sits on both the Audit Committee and Remuneration Committee.

## **CORPORATE GOVERNANCE**

The Company does not fully comply with any corporate governance code. However, the Directors have sought to embrace the principles contained in the UK Corporate Governance Code (2012), applicable to fully listed companies, in formulating and applying the Group's corporate governance policies. These policies are monitored to ensure that they are appropriate to the Company's circumstances and comply as far as possible with the provisions of the Code given the size of the Company.

The Board meets at least six times during the year and all the Directors make every effort to attend these meetings. The Board maintains a schedule of matters which are reserved to it for decision, including acquisition policy, approval of major capital expenditure and approval of annual budgets.

### **(a) Audit Committee**

The Audit Committee is responsible for monitoring the quality of internal controls and ensuring that the financial performance of the Group is properly measured and reported on. It receives and reviews reports from the Group's management and external auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Group. The Audit Committee meets not less than twice each financial year and has unrestricted access to the Group's external auditors. At Admission, the Audit Committee will continue to be chaired by Raymond Duignan and also includes Edward Beale.

### **(b) Remuneration Committee**

The Remuneration Committee is chaired by Raymond Duignan and also includes Edward Beale. Amongst its other responsibilities, the Remuneration Committee: agrees with the Board the framework or broad policy for the remuneration of the executive Directors; determines targets for any performance related pay schemes operated by the Group; within the terms of the agreed policy, determines the total individual remuneration package of each executive Director including, where appropriate, bonuses, incentive payments and share options; and ensures that contractual terms on termination, and any payments made, are fair to the individual and the Company. The Remuneration Committee meets as and when necessary (but not less than once a year). In exercising this role, the

Directors have regard to the recommendations put forward in the UK Corporate Governance Code as well as the Listing Rules and associated guidance.

### **(c) Share Dealing Code**

The Board will continue to comply, and to procure compliance, with Rule 21 of the AIM Rules relating to dealings in the Company's securities by the Directors and other applicable employees. To this end, the Company has adopted a code for directors' dealings appropriate for a company whose shares are admitted to trading on AIM and will take all reasonable steps to ensure compliance by the Directors and any relevant employees. The form of this code is based on the model code contained in the Listing Rules.

### **SHARE OPTION SCHEMES**

As at 9 October 2014 (being the latest practicable date prior to the publication of this document), there were outstanding options over a total of 7,054,976 Ordinary Shares representing approximately 5.6 per cent. of the Enlarged Share Capital. A summary of the Share Option Schemes is set out in paragraph 19 of Part VI of this document.

The Company intends to issue new options under the Share Option Schemes following Admission to incentivise and reward the Directors and other senior executives. The issue of new options will assist with key senior executive retention and the alignment of their interests with those of the Shareholders. To ensure that the Share Option Schemes are effective, it will be administered and kept under review by the Remuneration Committee. The Remuneration Committee, where required, will consult with the Company's Nominated Adviser and/or substantial Shareholders on the issue of new options to the Executive Directors. Each new option granted under the Share Option Schemes will be subject to detailed performance conditions, which will be linked to short-term, mid-term and long term targets covering both financial and operational targets specific to each individual.

### **THE TRANSACTION**

#### **The Acquisition**

On 9 October 2014, the Company entered into the Acquisition Agreement under which it has conditionally agreed to acquire the entire issued share capital of Fennel. The Company has agreed to pay a total consideration of approximately £56.0 million in cash at Completion in respect of the Acquisition, which includes an amount required in order to repay, at Completion, outstanding shareholder and bank debt owed by the Fletchers Group. The net proceeds of the Placing will be used to part-fund the amount payable by the Company and the Directors expect to utilise up to £33.8 million from the New Debt Facilities to fund the remainder.

The Acquisition Agreement is conditional upon Shareholders approving the Resolutions that will be proposed at the General Meeting (notice of which is set out in the Notice of General Meeting), and each of the Placing Agreement and the New Debt Facilities becoming unconditional.

Further details of the Acquisition Agreement are set out in paragraph 11.1.1 of Part VI of this document.

#### **The New Debt Facilities**

On 9 October 2014, the Company entered into New Debt Facilities with HSBC Bank Plc and Lloyds Bank Plc. The New Debt Facilities total up to £52.0 million. The New Debt Facilities will be used by the Company to part fund the Acquisition, pay certain costs associated with the Acquisition, refinance certain existing indebtedness and for general working capital.

Further details of the New Debt Facilities are set out in paragraph 11.1.6 of Part VI.

#### **The Placing**

##### ***Details of the Placing***

On Admission the Company will have 126,226,318 Ordinary Shares in issue and an expected market capitalisation of approximately £74.5 million. The Placing comprises the issue of 59,322,034 new Ordinary Shares by the Company to raise £35.0 million (before expenses). The placing price of 59p represents a discount of 4.1 per cent. to the closing share price on 9 October 2014.

Cenkos has agreed, pursuant to the Placing Agreement and conditional, *inter alia*, on Admission, to use its reasonable endeavours to place the Placing Shares, with institutional and other investors. The Placing, which is not being underwritten, is conditional, *inter alia*, upon:

- the Placing Agreement becoming unconditional and not having been terminated in accordance with its terms prior to Admission; and
- Admission becoming effective not later than 30 October 2014, or such later date as Cenkos and the Company may agree, being not later than 31 October 2014.

Further details of the Placing Agreement are set out in paragraph 11.1.3 of Part VI of this document.

The Placing Shares will rank *pari passu* in all respects with the Existing Ordinary Shares including the right to receive all dividends and other distributions declared, paid or made after Admission, save that they will not rank for the final dividend of the Company that will be paid on 10 December 2014. None of the Placing Shares have been marketed to or will be made available in whole or in part to the public in conjunction with the application for Admission.

#### ***Related Party subscription as part of the Placing and voting undertaken***

Ruffer LLP and London Finance and Investment Group P.L.C. have agreed to subscribe for 9,712,200 Placing Shares and 1,000,000 Placing Shares respectively pursuant to the Placing. Following Admission, Ruffer LLP will have a beneficial interest in 20,938,389 Ordinary Shares, representing 16.6 per cent. of the Enlarged Share Capital and London Finance and Investment Group P.L.C. will have a beneficial interest in 10,000,000 Ordinary Shares, representing 7.9 per cent. of the Enlarged Share Capital. Ruffer LLP and London Finance and Investment Group P.L.C. are each a “related party” (as defined by the AIM Rules) of the Company by virtue of being existing substantial shareholders in the Company. The Directors having consulted with Cenkos, the Company’s Nominated Adviser for the purposes of the AIM Rules, believe the terms of the related party subscriptions are fair and reasonable insofar as the Shareholders of the Company are concerned.

#### ***Placing and Transaction Considerations***

As set out in the Recommendation section below, the Directors believe the Transaction to be in the best interests of the Company and its Shareholders as a whole. In making this statement the Directors have spent time, and have taken appropriate advice from Cenkos, in considering the Transaction and the method by which the cash consideration payable under the Acquisition Agreement should be raised. The Directors concluded that a Placing was the most appropriate structure to raise equity funding, alongside funds raised from the New Debt Facilities, for the following reasons:

- a non-pre-emptive offer enabled the Company to demonstrate funding certainty to the vendors of Fennel and their advisors ahead of entering into the Acquisition Agreement. The Directors do not believe Finsbury Food would have secured exclusivity on the Acquisition nor have been able to execute the Acquisition Agreement, within the proposed timetable, without the certainty of funds provided via a placing;
- the Directors believe it is important, based on investor feedback, to maintain a net debt to EBITDA leverage ratio of less than approximately 2.5 times in order to maintain financial flexibility and stability going forward as a publicly listed company. In adopting this leverage ratio, the amount of money required to be raised via a new equity issue in order to fund the consideration for the Acquisition, was significant relative to the size and market capitalisation of the Company. The Directors do not believe the necessary equity funds could have been raised from existing Shareholders alone and, based on advice a placing represented the most attractive structure for new incoming investors;
- the Placing Price represents a discount to the closing mid-market price of 4.1 per cent. per Ordinary Share as at 9 October 2014 (being the latest practicable date prior to the date of this document). The Directors believe the minimal pricing discount of the Placing Shares makes the Placing an attractive source of finance for the Company whilst minimising dilution for Shareholders. Shareholders will also benefit from the expected operational and financial performance of the Enlarged Group going forward;
- the Placing enables the Company to attract a number of new institutional shareholders to its shareholder register, which the Directors expect will improve liquidity going forward; and

- the time and costs associated with a pre-emptive offer would have been significant, especially the requirement to produce a prospectus for a rights issue or open offer, and offered no certainty of a meaningful funding.

### **Admission, Settlement and CREST**

Application will be made by the Company for the Existing Ordinary Shares and the Placing Shares to be admitted or re-admitted, as the case may be, to trading on AIM. Subject to the passing of the Resolutions, Admission is expected to occur and dealings to commence on 30 October 2014.

If the Transaction is not completed, the Existing Ordinary Shares will continue to be traded on AIM, the Acquisition and the Placing will not take place and the Placing Shares will not be admitted to AIM.

Application has been made for the Placing Shares to be eligible for admission to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place in CREST if the relevant Shareholder so wishes. CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a share certificate and transferred otherwise than by written instrument. The Articles permit the holding and transfer of Ordinary Shares under the CREST system. CREST is a voluntary system and Shareholders who wish to receive and retain share certificates will be able to do so. Persons acquiring shares as a part of the Placing may elect to receive Ordinary Shares in uncertificated form if, but only if, that person is a “system-member” (as defined in the CREST Regulations) in relation to CREST.

It is expected that, subject to the satisfaction of the conditions of the Placing, the Placing Shares will be registered in the names of the Placees subscribing for them and issued either: in certificated form, where the Placee so elects, with the relevant share certificate expected to be dispatched by post, at the Placee’s risk, by/or in CREST, where the Placee so elects and only if the Placee is a “system member” (as defined in the CREST Regulations) in relation to CREST, with delivery (to the designated CREST account) of the Ordinary Shares subscribed for expected to take place on 30 October 2014. Notwithstanding the election by Placees as to the form of delivery of the Placing Shares, no temporary documents of title will be issued. All documents or remittances sent by or to a Placee, or as they may direct, will be sent through the post at their risk. Pending the dispatch of definitive share certificates (as applicable), instruments of transfer will be certified against the Company’s register of members.

### **TAXATION**

Your attention is drawn to the taxation section contained in paragraph 18 of Part VI of this document. If you are in any doubt as to your tax position, you should consult your own independent financial adviser immediately

### **VOTING UNDERTAKINGS**

The Company has received undertakings from certain Shareholders to vote in favour of each of the Resolutions. These persons, which includes the Directors, together have an aggregate beneficial holding of 13,968,036 Ordinary Shares, amounting to 20.9 per cent. of the Existing Ordinary Shares.

### **General Meeting**

A notice is set out at the end of this document convening the General Meeting to be held at the offices of CMS Cameron McKenna LLP at Mitre House, 160 Aldersgate Street, London EC1A 4DD at 10.00 a.m. on 29 October 2014 at which the following Resolutions will be proposed:

- (1) Resolution 1, which will be proposed as an ordinary resolution, is to approve the Acquisition for the purposes of Rule 14 of the AIM Rules;
- (2) Resolution 2, which will be proposed as an ordinary resolution, is to authorise the Directors to allot relevant securities up to an aggregate nominal value of (i) £593,220 in connection with the Placing; and (ii) £416,546 otherwise than in connection with the Placing;
- (3) Resolution 3, which will be proposed as a special resolution, disapplies statutory pre-emption rights, provided that such authority shall be limited to, *inter alia*, the allotment of equity securities in connection with the Placing, and otherwise the allotment of equity securities up to an aggregate nominal amount of £126,226;

- (4) Resolution 4, which will be proposed as a special resolution, will amend the Company's Articles by the deletion of Article 4, which relates to the Company's authorised share capital.

Resolution 2 authorises the allotment of such number of new Ordinary Shares as are necessary for the Placing, as well as providing the Directors with a standing authority to allot equity securities up to an aggregate nominal value of £416,546 (representing approximately one-third of the Enlarged Share Capital). Resolution 3 authorises the disapplication of statutory pre-emption rights in respect of such number of new Ordinary Shares as are necessary for the Placing as well as providing the Directors with a standing authority to allot equity securities otherwise than in accordance with statutory pre-emption rights up to an aggregate nominal value of £126,226 (representing ten per cent. of the Enlarged Share Capital). If approved, Resolution 4 will remove the Company's authorised share capital, which currently operates as a limit on the number of Shares in respect of which the Directors could be granted authority to allot, and which if not removed, would in any event need to be increased in order to accommodate the issue of the Placing Shares. As a result of statutory changes implemented by the Act, since 1 October 2009, companies have ceased to be required to have an authorised share capital and, consistent with current market practice, the Directors are proposing that this limitation be removed.

All of the Resolutions need to be approved by Shareholders for the Transaction to be implemented and the approval of Resolutions 1, 2 and 3 are inter-conditional. In view of the legislative amendments referred to above and the development in market practice as a result, the Directors do not consider it to be in Company's best interests to retain an authorised share capital limit in its Articles, irrespective of whether the Transaction is implemented, and accordingly, are not proposing that the approval of Resolution 4 is conditional upon the approval of any of the other Resolutions. Accordingly, if passed, Resolution 4 will take effect irrespective of whether the other Resolutions are approved or if the Transaction is subsequently completed.

#### **Action to be taken**

Please check that you have received a Form of Proxy for use in relation to the General Meeting with this document:

Whether or not you intend to be present in person at the General Meeting, you are strongly encouraged to complete, sign and return your Form of Proxy in accordance with the instructions printed thereon so as to be received, by post or, during normal business hours only, by hand to Capita Asset Services, PX51, 34 Beckenham Road, Beckenham, Kent, BR3 4ZF, as soon as possible but in any event so as to arrive by not later than 10.00 a.m. on 27 October 2014 (or, in the case of an adjournment of the General Meeting, not later than 48 hours before the time fixed for the holding of the adjourned meeting (excluding any part of a day that is not a business day)).

Appointing a proxy will enable your vote to be counted at the General Meeting in the event of your absence. The completion and return of a Form of Proxy will not preclude you from attending and voting in person at the General Meeting, or any adjournment thereof, should you wish to do so.

#### **Recommendation**

The Directors consider the Transaction to be in the best interests of the Company and the Shareholders as a whole and accordingly unanimously recommend that Shareholders vote in favour of the Resolutions to be proposed at the General Meeting as they intend to do in respect of their own beneficial holdings amounting, in aggregate, to 2,741,847 Ordinary Shares, representing approximately 4.1 per cent. of the Existing Ordinary Shares.

Yours faithfully

Peter Baker  
*Non-Executive Chairman*

## PART II

### RISK FACTORS

**THE FOLLOWING FACTORS DO NOT PURPORT TO BE AN EXHAUSTIVE LIST OR EXPLANATION OF ALL THE RISK FACTORS INVOLVED IN INVESTING IN THE COMPANY. IN PARTICULAR, THE COMPANY'S PERFORMANCE MIGHT BE AFFECTED BY CHANGES IN MARKET AND/OR ECONOMIC CONDITIONS AND IN LEGAL, REGULATORY AND TAX REQUIREMENTS. ADDITIONALLY, THERE MAY BE RISKS OF WHICH THE BOARD IS NOT AWARE OR BELIEVES TO BE IMMATERIAL WHICH MAY, IN THE FUTURE, ADVERSELY AFFECT THE GROUP'S OR THE ENLARGED GROUP'S BUSINESS AND THE MARKET PRICE OF THE ORDINARY SHARES. IN SUCH CASES, THE MARKET PRICE OF THE ORDINARY SHARES MAY DECLINE AND HOLDERS OF ORDINARY SHARES MAY LOSE ALL OR PART OF THEIR INVESTMENT.**

#### **RISKS RELATING TO THE ACQUISITION**

##### **Fletchers Group may not perform in line with the Directors' expectations**

If the results and cash flows generated by the Fletchers Group are not in line with the Directors' and the Company's expectations, it may materially impact on the financial performance of the Enlarged Group, and a write-down may be required against the carrying value of Finsbury Food's investment in the Fletchers Group which might have an adverse effect on the Enlarged Group's financial position and operating results. Such a write-down would reduce the Company's ability to generate distributable reserves by the extent of the write-down and consequently may affect the Enlarged Group's ability to pay dividends.

##### **Integration of the Fletchers Group**

Following completion of the Acquisition, it may be necessary for the Company to make changes to the structure of the Enlarged Group's business in order to optimise the potential benefits available from the integration of the Fletchers Group. The Enlarged Group may face unforeseen difficulties both with the integration of Fletchers Group, and as structural changes are carried out.

Furthermore, issues may come to light during the course of integrating Fletchers Group into the Enlarged Group that could have an adverse effect on the financial condition and results of operations of the Enlarged Group. These issues may also cause the forecasted synergy benefits of combining both Finsbury Food and the Fletchers Group to not materialise. The Acquisition will place additional demands on the management of the Enlarged Group and may require the provision of supplemental resource.

The Board has undertaken both financial and legal due diligence to seek to ensure that the Enlarged Group will meet expectations; however no guarantee can be given that this will be the case.

##### **General uncertainty related to the Acquisition could harm the financial performance of Finsbury Food, the Fletchers Group and/or the Enlarged Group**

Either or both of Finsbury Food's and the Fletchers Group's current and prospective customers may, in response to the announcement of the Acquisition, delay, defer or cancel future purchasing decisions. If Finsbury Food and/or Fletchers Group customers delay, defer or cancel purchasing decisions, the revenues of Finsbury Food and/or Fletchers Group, respectively, could materially decline or any anticipated increases in revenue could be lower than expected. Also, speculation regarding the likelihood of completion could increase the volatility of Finsbury Food's share price.

##### **Change of control clauses with customers and suppliers**

The Acquisition will constitute a change of control of Fletchers Group. Fletchers Group is party to certain contracts with customers and suppliers which contain termination rights in the case of a change of control. No consent to the change of control has been obtained from the relevant counterparties because the Directors, having reviewed such contractual arrangements, believe that either these arrangements will not be material to the business of the Enlarged Group or that it is unlikely that such counterparty would be concerned, in practice, to terminate such arrangements on completion of the Acquisition. There can be no guarantee, however, as regards the possible actions or views of such counterparties to that change of control.

**Risks of executing the Acquisition could cause the market price of Finsbury Food's Ordinary Shares to decline**

The market price of the Ordinary Shares may decline as a result of the Acquisition, among other reasons, if:

- the integration of the Fletchers Group's business is delayed or unsuccessful;
- Finsbury Food does not achieve the expected benefits of the Acquisition as rapidly or to the extent anticipated by analysts or investors or at all;
- the effect of the Acquisition on Finsbury Food's financial results is not consistent with the expectations of analysts or investors.

**Risk if the Acquisition does not proceed**

If the Acquisition does not proceed, Finsbury Food will have incurred advisory and other costs which it will have to pay in any event. In addition, Finsbury Food may not be able to identify and acquire alternative suitable targets for expansion of its business.

**RISKS RELATING TO THE ENLARGED GROUP****The loss of any of Finsbury Food or Fletchers Group key customers or key lines of product sales to such key customers could have a material adverse effect on their respective businesses**

In the twelve months ended 28 June 2014, the top five customers by value of Finsbury Food accounted for approximately 73 per cent. of its revenues. In the financial year ended 29 March 2014, the top eight customers by value of Fletchers Group accounted for approximately 70 per cent. of its revenues. Any significant deterioration in Finsbury Food's, Fletchers Group's or, following completion of the Transaction, the Enlarged Group's relationships with its key customers, whether as a result of inability to agree terms on renewal of the relevant contract(s), a key customer ceasing to stock a product line, a change of management of a customer, gains made by the Enlarged Group's competitors or otherwise, could have a material adverse effect on the Enlarged Group's business, results of operations, financial condition and/or prospects following the Transaction becoming effective.

**Certain of the Enlarged Group's branded products are produced under licences which may be adversely affected by factors beyond the Enlarged Group's control and will expire (or may terminate) and may not be renewable on terms acceptable to the Enlarged Group or at all**

Approximately 40 per cent. of the Company's branded cakes are produced and sold under licences from third parties, including WeightWatchers, Thorntons, Nestlé Confectionary and Disney.

The reputation of the Enlarged Group's licensed brands may be adversely affected if the reputation of its licensors is damaged, either by the actions of a licensor or by other factors outside their, or the Enlarged Group's, control. Such damage may adversely affect the sales of the licensed brands and the Enlarged Group's other brands, which may adversely affect the results of the Enlarged Group's operations.

There can be no assurance that the Enlarged Group's licences to use certain brands will continue once they expire or, if the licences are terminated, that the Enlarged Group will be able to negotiate a further licence for the relevant brand on favourable terms or at all, or any other licensed brands as the current licence expires.

The failure to renew one or more of the Enlarged Group's licences on acceptable terms as they expire or terminate would mean that the Enlarged Group is unable to continue selling products under that brand, which may materially and adversely affect the Enlarged Group's business, operating results, financial condition or prospects.

**Competitive pressures could have a material adverse effect on the Enlarged Group's operations**

The Enlarged Group operates in a competitive market in which large well-established competitors operate. Such competitors have significant resources and capital which are likely to be in excess of those of the Enlarged Group. The sales tactics and activities of such competitors and their pricing policies or the successful introduction of new competing products or brands could cause a reduction in the Enlarged Group's sales and margins, results of operations, financial condition and/or prospects.

**The Enlarged Group's cost saving measures through a simplification of its business and operations may fail or advance at a slower pace than planned**

The Enlarged Group will pursue certain cost saving measures to maintain, and reduce, its cost base through simplifying its business, reducing operational complexity and implementing efficiency initiatives to improve the underlying performance of the business. All or any of these initiatives may fail to improve performance (or advance performance at a slower pace than planned) and, consequently, materially and adversely affect the Enlarged Group's business, operating results, financial condition or prospects.

**The success of the Enlarged Group depends on the continued contributions of its executive officers and senior management, both individually and as a group**

The successful operation of the Company relies on the expertise and capabilities of its senior management and personnel, specifically John Duffy, Stephen Boyd and Stephen Holding. The departure of a key member of management could, therefore, have a detrimental effect on the operating performance of the Company and there can be no certainty that any such employee could be replaced in a timely manner by a suitably experienced candidate.

**Changes in the cost, availability or terms of supply of packaging, ingredients and raw materials will affect the Enlarged Group's operational and financial performance**

Both Finsbury Food's and Fletchers' operations are affected by the prices, availability and terms of supply of raw materials, packaging and utilities from around the world. Operations may be interrupted or otherwise adversely affected by: delays or interruptions in the supply of utilities or materials from third-party suppliers; any change in the terms on which such supplies or materials are available; or the termination of any supplier arrangement where an alternative source of supply is not readily available on substantially similar terms. The Enlarged Group's operations will also be affected by the prices of raw materials, packaging and utilities.

Key raw materials including flour, milk, sugar and flavourings expose the Enlarged Group to price, quality and supply fluctuations. Rises in the costs of packaging, ingredients and raw materials could have a material impact on the Enlarged Group's results of operations, financial condition and/or prospects. Prolonged rises in the costs of packaging, ingredients and raw materials may cause an increase in the price of a particular product or products and, as a result, may cause a material change in the demand for certain of the Enlarged Group's products.

**The day-to-day operations of the Enlarged Group are at risk from disruption**

The day-to-day operations of the Enlarged Group could be disrupted for reasons beyond the control of the Directors and/or the Company. The Company must also manage human and physical resources to ensure the continuity of its operations. There can be no assurance that business continuity plans will prove adequate in the event of any material disruption and any disruption may materially adversely affect the Enlarged Group's ability to make and sell products and therefore materially adversely affect its reputation, business, results of operation, financial condition and/or prospects. The key operational risks to which the Enlarged Group are subject include:

- risk of fire damage: there can be no guarantee that their fire insurance policies will be sufficient to insure the Enlarged Group against all losses and liabilities arising from any fire damage to its manufacturing facilities, nor that fire insurance policies will in future remain available under the same terms as currently provided;
- risk of disruption to IT systems: IT systems are used by Finsbury Food and Fletchers (among other things) to monitor stock levels and to process invoices and payments. Interruptions to the Finsbury Food and Fletchers Group's IT systems may be caused by numerous factors, including loss of power, fire, severe weather conditions and any corruption of the systems. There can be no assurance that the contingency plans of the Enlarged Group have in place from time to time will be sufficient to mitigate the adverse consequences of disruption to their IT systems and any such occurrences could adversely affect their operations; and
- risk of breakdown of individual facilities and the loss of major manufacturing plants: due to the short lead times involved in servicing their customers, such incidents may have a material impact on the Enlarged Group's results from operations and could damage their reputation and prospects. Any repairs or maintenance work could also increase their costs and affect their cash flow generation.

**Increased transportation costs or disruption of transportation services may materially and adversely affect the Enlarged Group's business and financial results**

Should the cost of delivering the Enlarged Group's products increase due to changes in the price or availability of fuel, or if the Enlarged Group is otherwise unable to deliver its products economically, the results of the Enlarged Group's operations and financial performance may be adversely affected. If the Enlarged Group is unable to pass on the price difference to its customers, the Enlarged Group's results and profits may be affected. The Enlarged Group will use third party carriers to make certain deliveries. To the extent that the market price for fuel or freight or the number or availability of carriers fluctuates, the Enlarged Group's business, operating results, financial condition or prospects may be materially and adversely affected. In addition, temporary or long-term disruption of transportation services due to weather-related problems, strikes, lockouts or other events may impair the Enlarged Group's ability to supply products affordably and in a timely manner or at all. Where third party carriers are used, certain of these factors may be controlled by such carriers. These factors may affect the Enlarged Group's commercial reputation and adversely affect the Enlarged Group's business, operating results, financial condition or prospects.

**The Enlarged Group's customers may not be creditworthy**

Credit risk is the risk of suffering financial loss should any of the Enlarged Group's customers fail to fulfil their contractual obligations to the Enlarged Group. The credit risk that the Enlarged Group will face arises mainly in relation to customers (in so far as the Enlarged Group is not insured for their payments). As a continuing consequence of the global financial downturn and the tightening of the credit markets, some of the Enlarged Group's customers may have experienced a significant decline in profits or reduced liquidity. The failure of customers or counterparties to fulfil their obligations to the Enlarged Group may materially and adversely affect the Enlarged Group's business, operating results, financial condition or prospects.

**Currency exchange fluctuations may increase the Enlarged Group's costs**

The Enlarged Group's financial position and the results of its operations are subject to adverse currency movements, primarily against the euro. Sustained movement in exchange rates will increase or decrease the value of the Enlarged Group's revenue and costs as reported in pounds sterling. As a result, the Enlarged Group cannot guarantee that exchange rate fluctuations will not adversely affect the Enlarged Group's business, operating results, financial condition or prospects.

**The Enlarged Group's past and present operations may prove harmful to the environment and any related environmental costs may adversely affect the results of the Enlarged Group's operations**

The Enlarged Group's past and present business operations and ownership and operation of property are subject to a broad range of environmental laws and regulations in the jurisdictions in which the Enlarged Group operates. These laws and regulations impose increasingly stringent environmental protection standards on the Enlarged Group with respect to, among other things, air emissions, waste water discharges, the use and handling of hazardous materials, noise levels, waste disposal practices and environmental clean-up. As a result, the Enlarged Group may be exposed to substantial environmental costs related to investigation, removal or remediation. Failure to comply with these laws and regulations may result in significant adverse consequences to the Enlarged Group, including civil and criminal penalties, liability for compliance costs, damages and reputational harm. The Enlarged Group may also be exposed to environmental liabilities associated with divested assets and past activities. In addition, future developments such as changes in laws or environmental conditions may increase environmental costs and liabilities and may materially and adversely affect the Enlarged Group's business, operating results, financial condition or prospects.

**The Enlarged Group is subject to regulations and legislation in the areas of food safety, environmental protection and employee health and safety, a breach of which may have material adverse consequences**

As manufacturers of food, Finsbury Food and Fletchers Group are subject to rigorous and constantly evolving UK and European regulations and legislation in the areas of food safety, environmental protection and employee health and safety. There can be no assurance that an incident will not occur in relation to one or more of the Enlarged Group's products or manufacturing facilities plants. Any such incident could have a negative impact on their reputation and customer confidence in their products, reducing demand for a specific product or the Enlarged Group's products in general. This in turn could have an adverse effect on the Enlarged Group's financial condition and future prospects.

Moreover, the Enlarged Group may be required to effect product recalls and/or may be subject to seizure of products and/or other sanctions which could have a material adverse effect on the business and reputation of the Enlarged Group. In addition, any inquiry or investigation from a food regulatory authority could have a negative impact on the Enlarged Group's reputation. Any of these events may have an adverse effect on the Enlarged Group's business, results from operations, financial condition and/or prospects.

**Employment disputes could have a material adverse effect on the Enlarged Group's business, results of operations, financial condition and/or prospects**

The Directors seek to maintain good relations with their employees and, where applicable, the trade unions that represent those employees. There can, however, be no assurance that, following completion of the Acquisition, the Enlarged Group's operations will not be affected by employment disputes or disruptions. There can also be no assurance that work stoppages or other labour-related developments will not adversely affect the financial condition of the Enlarged Group.

**Pension deficit liabilities could unexpectedly increase which may have an adverse impact on the balance sheet and profit and loss of the Enlarged Group**

Finsbury Food operates a defined benefit pension scheme. The nature of this pension arrangement means that the Enlarged Group will be exposed to volatile cash, balance sheet and profit and loss impacts. Although the Enlarged Group expects to be able to meet its obligations under the pension scheme, the funding level of the scheme for both cash and accounting purposes is sensitive to changes in a wide range of actual or assumed factors, which are beyond the Enlarged Group's control, including primarily investment returns, discount rates for valuing liabilities (driven by returns on bonds), life expectancy and inflation. As a result it is not possible to predict accurately the future funding level or employer cash contribution obligations (which are, to a degree, subject to the relevant pension scheme trustees' discretion in respect of any request for further funding) and accounting charges with any degree of certainty. Assets and investments held by Finsbury Food's defined benefit pension schemes may not grow to anticipated levels in the expected time periods. In the case of losses in respect of pension scheme investments, the Enlarged Group may be required to make additional amounts available to make up any prospective pension deficits going forward.

**Uninsured losses or losses in excess of the Enlarged Group's insurance coverage for various corporate risks could adversely affect the Enlarged Group**

Finsbury Food and Fletchers Group maintain and, following completion of the Acquisition, the Enlarged Group will maintain, business insurance cover which is considered appropriate for its business and activities. Certain types of losses, however, may be either uninsurable or not economically insurable, such as losses due to natural disasters, riots, acts of war or terrorism. In addition, even if a loss is insured, the Enlarged Group may be required to pay a significant deductible on any claim for recovery of such loss prior to the insurer being obliged to reimburse it for the loss, or the amount of the loss may exceed coverage for the loss. As a result, the Enlarged Group's business, results of operations, financial condition and/or prospects may be adversely affected by any uninsured losses.

**The Enlarged Group's borrowings could adversely affect its results of operations, financial condition and/or prospects**

As part of the Transaction, the Enlarged Group is entering into the New Debt Facilities for up to £51.9 million. The amount of debt that the Enlarged Group will have at any point in time will be dependent, *inter alia*, on creditor and debtor payment and working capital cycles. *The degree to which the Enlarged Group is leveraged could have important consequences for the business, including:*

- making it more difficult for to satisfy obligations with respect to indebtedness;
- increasing vulnerability to, and reducing flexibility to respond to, general adverse economic and industry conditions, including rises in interest rates;
- restricting the ability to make strategic acquisitions or pursue other business opportunities;
- limiting the Enlarged Group's ability to obtain additional financing, dispose of assets or pay cash dividends other than as permitted by the terms of the New Debt Facilities;
- requiring the Enlarged Group to dedicate a substantial portion of its cash flow from operations to service the New Debt Facilities, thereby reducing the availability of such cash flow to fund dividend payments;

- limiting flexibility in planning for, or reacting to, changes in the business and the industry in which the Enlarged Group operates;
- placing the Enlarged Group at a competitive disadvantage compared to its competitors that have less debt; and
- increasing the cost of borrowing.

Any of these consequences or events could have a material adverse effect on the Enlarged Group's business, prospects, financial condition and results of operations.

**The New Debt Facilities contain restrictive covenants that will limit the Enlarged Group's financial and operating flexibility, which could materially and adversely affect its business, financial condition and results of operations**

The New Debt Facilities contain certain restrictions and limitations which are subject to significant exceptions and qualifications. The covenants could limit the Enlarged Group's ability to plan for, or react to, market conditions, as well as adversely affect its ability to finance operations, strategic acquisitions, pay dividends investments or other capital needs, implement our business plans, pursue business opportunities and engage in other business activities that may be in the Enlarged Group's best interests.

**Changes in taxation laws may negatively impact the financial performance of the Enlarged Group**

Changes in corporate and other tax rules could have both a prospective and retrospective impact on the Enlarged Group's business, financial condition and results of operations. In general, changes to, or in the interpretation of, existing tax laws, or amendments to existing tax rates (corporate or personal), or the introduction of new tax legislation may adversely affect the Enlarged Group, either directly or as a result of changes in the purchasing decisions of customers and consumers.

**The Company's ability to pay dividends in the future is not guaranteed**

The Directors may not be able to or may choose not to pay any dividends. Further dividends will depend on, among other things, the Enlarged Group's future profit, financial position, capital requirements, distributable reserves, the terms of its financing arrangements, general economic conditions and other factors that the Directors deem significant from time to time.

**Changes in trends or fashions**

As the manufacturer of a commercial product aimed directly at consumers, the Enlarged Group faces the risk that changes in tastes, trends or fashions amongst those consumers could have an adverse effect on revenues. Sales could be impacted by health-based legislation or campaigning moving its focus from the "everyday" market to premium indulgence products.

**Product liability and reputational risk**

The Enlarged Group's activities may expose it to potential product liability risks that are inherent in the development and manufacture of such products. Any product liability publicity or claim brought against the Enlarged Group, with or without merit, could result in damage to the reputation of the Enlarged Group and a subsequent drop in revenue.

**RISKS RELATING TO THE ORDINARY SHARES**

**Suitability**

Investment in the Ordinary Shares may not be suitable for all prospective investors. Prospective investors are, accordingly, advised to consult a person authorised under FSMA who specialises in investments of this nature before making any investment decisions.

**Investment in AIM-traded securities**

Investment in shares traded on AIM involves a higher degree of risk and such shares may be less liquid than shares in companies which are listed on the Official List. The AIM Rules are less demanding than those of the Official List. It is emphasised that no application is being made for the admission of the Company's securities to the Official List. An investment in the Ordinary Shares may be difficult to realise. Prospective investors should be aware that the value of an investment in the Company may go down as well as up and that the market price of the Ordinary Shares may not reflect the underlying value of the Enlarged Group. Investors may, therefore, realise less than, or lose all of, their investment.

### **Share price volatility and liquidity**

The value of an investment in the Ordinary Shares may decrease or increase abruptly, and such volatility may bear little or no relation to the Enlarged Group's performance. As a consequence of such volatility, investors should be aware that the value of an investment in the Company may go down as well as up. The price of the Ordinary Shares may fall in response to market appraisal of the Enlarged Group's strategy or if the Enlarged Group's results of operations and/or prospects are below the expectations of market analysts or shareholders. In addition, stock markets have, from time to time, experienced significant price and volume fluctuations that have affected the market price of securities, and may, in the future, experience similar fluctuations which may be unrelated to the Enlarged Group's operating performance and prospects but nevertheless affect the price of the Ordinary Shares. Other factors which may affect the price of the Ordinary Shares include but are not limited to:

- differences between the Enlarged Group's expected and actual operating performance;
- cyclical fluctuations in the performance of the Enlarged Group's business;
- speculation, whether or not well-founded, regarding the intentions of the Enlarged Group's major Shareholders or significant sales of shares by any such Shareholders or short-selling of the Ordinary Shares;
- speculation, whether or not well-founded, about significant issues of shares by the Enlarged Group;
- speculation, whether or not founded, regarding possible changes in the Enlarged Group's management team;
- the publication of research reports by analysts and changes in earnings estimates by analysts;
- strategic actions by the Enlarged Group or its competitors, such as mergers, acquisitions, divestitures, partnerships and restructurings;
- speculation, whether or not well-founded, about the Enlarged Group's business, about mergers or acquisitions involving the Enlarged Group or major divestments by the Enlarged Group in the press, media or investment community; and
- general market conditions and regulatory, economic or political changes.

### **Access to further capital**

The Enlarged Group may require additional funds to respond to business challenges, to further expand the business of the Enlarged Group or to enhance existing products and services. Accordingly, the Enlarged Group may need to engage in equity or debt financings to secure additional funds. If the Company raises additional funds through further issues of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities could have rights, preferences and privileges superior to those of current shareholders. Any debt financing secured by the Enlarged Group in the future could involve restrictive covenants relating to its capital raising activities and other financial and operational matters, which may make it more difficult for the Enlarged Group to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, the Company may not be able to obtain additional financing on terms favourable to it, if at all. If the Enlarged Group is unable to obtain adequate financing or financing on terms satisfactory to it, when the Enlarged Group requires it, the Enlarged Group's ability to continue to support its business growth and to respond to business challenges could be significantly limited or could affect its financial viability.

### **Future sale of Ordinary Shares**

The Company is unable to predict when and if substantial numbers of Ordinary Shares will be sold in the open market following Admission. Any such sales, or the perception that such sales might occur, could result in a material adverse effect on the market price of the Ordinary Shares. The Enlarged Group may require additional capital in the future which may not be available to it. The Company may raise capital in the future through public or private equity financings or by raising debt securities convertible into Ordinary Shares, or rights to acquire these securities. Any such issues may exclude the pre-emption rights pertaining to the then outstanding shares. If the Company raises significant amounts of capital by these or other means, it could cause dilution for the Company's existing shareholders. Moreover, the further issue of Ordinary Shares could have a negative impact on the trading price and increase the volatility of the market price of the Ordinary Shares. The Company

may also issue further Ordinary Shares, or create further options over Ordinary Shares, as part of its employee remuneration policy, which could in aggregate create a substantial dilution in the value of the Ordinary Shares and the proportion of the Company's share capital in which investors are interested.

#### **Forward-looking statements**

Some of the statements in this document include forward-looking statements which reflect the Company's or, as appropriate, the Directors' current views with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to the Group's business). These statements include forward-looking statements both with respect to the Group and the sectors and industry in which the Group operates. All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause the Group's actual results to differ materially from those indicated in these statements. These factors include, but are not limited to, those described in this Part II of this document which should be read in conjunction with the other cautionary statements that are included in this document. Any forward-looking statements in this document reflect the Company's or, as appropriate, the Directors' current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the Company's operations, results of operations, growth strategy and liquidity.

These forward-looking statements speak only as at the date of this document. Subject to any applicable legal or regulatory obligations, the Company undertakes no obligation to update publicly or review any forward-looking statement, whether as a result of new information, future developments or otherwise, unless required by the Prospectus Rules, the AIM Rules or the Disclosure and Transparency Rules, as appropriate. All subsequent written and oral forward-looking statements attributable to the Company or individuals acting on behalf of the Company are expressly qualified in their entirety by this paragraph. Prospective investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision.

## **PART III**

### **FINANCIAL INFORMATION ON FINSBURY FOOD GROUP PLC**

In accordance with Rule 28 of the AIM Rules, this Admission Document does not contain historical financial information on the Company which would be required by Section 20 of Annex I of the Prospectus Rules.

However, whilst the full financial information required by Section 20 of Annex I is not included, comparative tables are presented below which summarise the Company's key historical financial information. These tables have been extracted without material adjustment from the Company's audited annual reports for the three years to 28 June 2014.

The audited accounts for the financial years ended 30 June 2012, 29 June 2013 and 28 June 2014 are incorporated by reference into this Part III and are available via the Company's website ([www.finsburyfoods.co.uk](http://www.finsburyfoods.co.uk)). Shareholders or other recipients of this document may request a copy of the information incorporated by reference from the Company Secretary of Finsbury Food, who can be contacted at the below address or by telephone:

City Group P.L.C  
6 Middle Street  
London, EC1A 7JA  
Tel: 020 7796 9060

A hard copy of the information incorporated by reference will not be sent to Shareholders or other recipients of this document unless requested.

**Consolidated Statement of Profit and Loss and Other Comprehensive Income  
for the 52 weeks ended 30 June 2012, 29 June 2013 and 28 June 2014**

	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Continuing Operations</b>			
Revenue	175,708	176,595	178,902
Cost of sales	(127,530)	(130,150)	(133,048)
<b>Gross profit</b>	48,178	46,445	45,854
Administrative expenses	(41,086)	(39,122)	(39,005)
<b>Results from operating activities</b>	7,092	7,323	6,849
Finance income	1,720	1,730	1,586
Finance cost	(2,236)	(2,978)	(3,846)
<b>Net finance cost</b>	(516)	(1,248)	(2,260)
<b>Profit before tax from continuing operations</b>	6,576	6,075	4,589
Taxation	(1,651)	(1,300)	(1,298)
<b>Profit from continuing operations</b>	4,925	4,775	3,291
Profit from discontinued operations net of tax	—	1,850	1,560
Profit from sale of business	—	1,184	—
<b>Profit for the year</b>	4,925	7,809	4,851
<b>Other comprehensive (expense)/income</b>			
<b>Items that will not be reclassified to profit and loss</b>			
Remeasurement on defined benefit pension scheme	(726)	(543)	(2,357)
Movement in deferred taxation on pension scheme liability	145	125	566
<b>Total items that will not be reclassified to profit and loss</b>	(581)	(418)	(1,791)
<b>Items that are or maybe reclassified to profit and loss</b>			
Foreign exchange translation differences	—	69	(187)
<b>Other comprehensive expense for the financial year, net of tax</b>	(581)	(349)	(1,978)
<b>Total comprehensive income for the financial year</b>	4,344	7,460	2,873
<b>Profit attributable to:</b>			
Equity holders of the parent	4,400	7,345	4,277
Non-controlling interest	525	464	574
<b>Profit for the financial year</b>	4,925	7,809	4,851
<b>Total comprehensive income attributable to:</b>			
Equity holders of the parent	3,819	6,996	2,299
Non-controlling interest	525	464	574
<b>Total comprehensive income for the financial year</b>	4,344	7,460	2,873
<b>Earnings per ordinary shares</b>			
Basic	6.7	12.3	8.0
Diluted	6.3	11.2	7.7
<b>Adjusted earnings per ordinary shares</b>			
Basic	6.7	6.5	5.2
Diluted	6.3	5.9	5.0
<b>Continuing</b>			
Basic	6.7	7.2	5.1
Diluted	6.3	6.6	4.9
<b>Discontinued</b>			
Basic	—	5.1	2.9
Diluted	—	4.6	2.8

### Adjusted profit on continuing operations before tax

Profit on continuing operations before tax has been adjusted to eliminate the impact of the following charges required by IFRS and significant non-recurring items for the 52 weeks ended 30 June 2012, 29 June 2013 and 28 June 2014:

	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Adjusted profit on continuing operations before tax	6,470	5,460	4,575
Significant non-recurring items	(759)	(718)	—
Share options charge	(9)	(134)	(573)
Difference between defined benefit pension scheme charges and cash cost	(61)	775	454
Movement in the fair value of interest rate swaps	708	855	84
Movement in the fair value of foreign exchange contracts	81	(179)	152
Unwinding of the discount on deferred consideration payable	(4)	(32)	(103)
Unwinding of the discount on deferred consideration receivable	150	48	—
<b>Profit on continuing operations before tax</b>	<b>6,576</b>	<b>6,075</b>	<b>4,589</b>

### Dividends

The following total dividends per share were paid for the 52 weeks ended 30 June 2012, 29 June 2013 and 28 June 2014:

	<b>2014*</b>	<b>2013</b>	<b>2012</b>
Total dividend per share	1.00p	0.75p	0p

\* The final dividend in 2014 of 0.75 pence per share has been proposed by the Company but not yet paid. Payment of this dividend is expected to occur on 10 December 2014. The interim dividend of 0.25 pence per share was paid on 25 April 2014.

**Consolidated Statement of Financial Position**  
**at 30 June 2012, 29 June 2013 and 28 June 2014**

	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Non-current assets</b>			
Intangibles	52,968	53,133	61,728
Property, plant and equipment	21,541	18,209	25,540
Other financial assets – investments	28	28	28
Deferred tax assets	1,350	1,917	1,269
Deferred consideration receivable	—	2,745	—
	<u>75,887</u>	<u>76,032</u>	<u>88,565</u>
<b>Current assets</b>			
Deferred consideration receivable	2,895	—	—
Inventories	4,530	4,400	5,380
Trade and other receivables	24,832	25,337	30,715
Cash and cash equivalents	592	1,310	3,793
Other financial assets- fair value of foreign exchange contracts	—	—	35
	<u>32,849</u>	<u>31,047</u>	<u>39,923</u>
<b>Total assets</b>	<u>108,736</u>	<u>107,079</u>	<u>128,488</u>
<b>Current liabilities</b>			
Other interest-bearing loans and borrowings	(5,718)	(3,921)	(17,458)
Trade and other payables	(30,736)	(33,054)	(35,119)
Provisions	(237)	(501)	(410)
Deferred purchase consideration	—	(216)	(1,036)
Other financial liabilities-fair value of interest rate swaps/foreign exchange	(451)	(1,240)	(1,950)
Current tax liabilities	(28)	(456)	(738)
	<u>(37,170)</u>	<u>(39,388)</u>	<u>(56,711)</u>
<b>Non-current liabilities</b>			
Other interest-bearing loans and borrowings	(3,612)	(4,342)	(18,459)
Provisions and other liabilities	(199)	(218)	(218)
Deferred purchase consideration	—	—	(203)
Deferred tax liabilities	(422)	(405)	(1,382)
Pension fund liability	(3,630)	(2,843)	(3,075)
	<u>(7,863)</u>	<u>(7,808)</u>	<u>(23,337)</u>
<b>Total liabilities</b>	<u>(45,033)</u>	<u>(47,196)</u>	<u>(80,048)</u>
<b>Net assets</b>	<u>63,703</u>	<u>59,883</u>	<u>48,440</u>
<b>Equity attributable to equity holders of the parent</b>			
Share capital	669	642	535
Share premium account	31,480	30,779	27,052
Capital redemption reserve	578	578	578
Retained earnings	29,849	26,865	19,389
	<u>62,576</u>	<u>58,864</u>	<u>47,554</u>
<b>Non-controlling interest</b>	<u>1,127</u>	<u>1,019</u>	<u>886</u>
<b>Total equity</b>	<u>63,703</u>	<u>59,883</u>	<u>48,440</u>

**Consolidated Statement of Changes in Equity  
for the 52 weeks ended 30 June 2012, 29 June 2013 and 28 June 2014**

	Share Capital £000	Share premium £000	Capital redemption reserve £000	Retained Earnings £000	Non- controlling interest £000	Total equity £000
Balance at 3 July 2011	528	26,918	578	16,517	811	45,352
Profit for the financial year	—	—	—	4,277	574	4,851
<b>Other comprehensive income/(expense):</b>						
Actuarial loss on defined benefit pension	—	—	—	(2,357)	—	(2,357)
Deferred tax movement on pension scheme actuarial loss	—	—	—	566	—	566
Foreign exchange translation differences	—	—	—	(187)	—	(187)
<b>Total other comprehensive expense</b>	—	—	—	(1,978)	—	(1,978)
<b>Total comprehensive income for the period</b>	—	—	—	2,299	574	2,873
<b>Transactions with owners, recorded directly in equity:</b>						
Shares issued during the year	7	134	—	—	—	141
Impact of share based payments	—	—	—	573	—	573
Dividend paid	—	—	—	—	(499)	(499)
<b>Balance at 30 June 2012</b>	<b>535</b>	<b>27,052</b>	<b>578</b>	<b>19,389</b>	<b>886</b>	<b>48,440</b>
Balance at 1 July 2012	535	27,052	578	19,389	886	48,440
Profit for the financial year	—	—	—	7,788	464	8,252
Effect of change in accounting policy on adoption of IAS19 (Revised)	—	—	—	(443)	—	(443)
Profit for the financial year (restated)	—	—	—	7,345	464	7,809
<b>Other comprehensive income/(expense):</b>						
Remeasurement of defined benefit pension	—	—	—	(1,118)	—	(1,118)
Deferred tax movement on pension scheme remeasurement	—	—	—	257	—	257
Foreign exchange translation differences	—	—	—	69	—	69
<b>Total other comprehensive expense</b>	—	—	—	(792)	—	(792)
Effect of change in accounting policy on adoption of IAS19 (Revised)	—	—	—	443	—	443
<b>Total other comprehensive expense (restated)</b>	—	—	—	(349)	—	(349)
<b>Total comprehensive income for the period</b>	—	—	—	6,996	464	7,460
<b>Transactions with owners, recorded directly in equity:</b>						
Shares issued during the year	107	3,727	—	—	—	3,834
Impact of share based payments	—	—	—	134	—	134
Deferred tax on share options	—	—	—	506	—	506
Dividend paid	—	—	—	(160)	(331)	(491)
<b>Balance at 29 June 2013</b>	<b>642</b>	<b>30,779</b>	<b>578</b>	<b>26,865</b>	<b>1,019</b>	<b>59,883</b>

**Consolidated Statement of Changes in Equity  
for the 52 weeks ended 30 June 2012, 29 June 2013 and 28 June 2014**

	Share Capital £000	Share premium £000	Capital redemption reserve £000	Retained Earnings £000	Non- controlling interest £000	Total equity £000
Balance at 30 June 2013	642	30,779	578	26,865	1,019	59,883
Profit for the financial year	—	—	—	4,400	525	4,925
<b>Other comprehensive (expense)/ income:</b>						
Remeasurement of defined benefit pension	—	—	—	(726)	—	(726)
Deferred tax movement on pension scheme remeasurement	—	—	—	145	—	145
Foreign exchange translation differences	—	—	—	—	—	—
<b>Total other comprehensive expense</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(581)</b>	<b>—</b>	<b>(581)</b>
<b>Total comprehensive income for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>3,819</b>	<b>525</b>	<b>4,344</b>
<b>Transactions with owners, recorded directly in equity:</b>						
Shares issued during the year	27	701	—	—	—	728
Impact of share based payments	—	—	—	9	—	9
Deferred tax on share options	—	—	—	(350)	—	(350)
Dividend paid	—	—	—	(494)	(417)	(911)
<b>Balance at 28 June 2014</b>	<b>669</b>	<b>31,480</b>	<b>578</b>	<b>29,849</b>	<b>1,127</b>	<b>63,703</b>

**Consolidated Cash Flow Statement**  
**for the 52 weeks ended 30 June 2012, 29 June 2013 and 28 June 2014**

	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cash flows from operating activities</b>			
Profit for the financial year	4,925	7,809	4,851
Adjustments for:			
Taxation	1,651	1,523	1,678
Net finance costs	516	1,248	2,260
Depreciation	2,834	2,888	3,047
Amortisation of intangibles	165	164	164
Share options charge	9	134	573
Contributions by employer to pension scheme	(71)	(65)	(65)
Pension scheme past service costs	—	(850)	—
Fair value charge/(credit) for foreign exchange contracts	(81)	179	(152)
Profit on disposal of business	—	(1,184)	—
<b>Operating profit before changes in working capital</b>	<b>9,948</b>	<b>11,846</b>	<b>12,356</b>
Changes in working capital:			
Decrease/(increase) in inventories	(197)	51	403
(Increase)/decrease in trade and other receivables	(6)	1,243	(1,251)
Increase/(decrease) in trade and other payables	(2,032)	884	105
<b>Cash generated from operations</b>	<b>7,713</b>	<b>14,024</b>	<b>11,613</b>
Interest paid	(1,084)	(2,022)	(2,391)
Tax paid	(1,700)	(1,776)	(2,201)
<b>Net cash from operating activities</b>	<b>4,929</b>	<b>10,226</b>	<b>7,021</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	(6,167)	(4,204)	(3,238)
Purchase of subsidiary companies	(217)	(1,055)	(3,185)
Disposal of operation	—	17,072	—
<b>Net cash (used in)/from investing activities</b>	<b>(6,384)</b>	<b>11,813</b>	<b>(6,423)</b>
<b>Cash flows from financing activities</b>			
Drawdown/(repayment) of invoice discounting	(300)	(10,828)	1,192
Drawdown of revolving credit	2,000	—	—
Repayment of bank loans	(338)	(15,503)	(1,624)
Repayment of loan notes	—	(3)	—
Drawdown of asset finance facilities	—	326	1,026
Repayment of asset finance liabilities	(478)	(1,928)	(1,433)
Issue of ordinary share capital	728	3,834	141
Dividend paid to non-controlling interest	(417)	(331)	(499)
Dividend paid to shareholder	(494)	(160)	—
<b>Net cash used in financing activities</b>	<b>701</b>	<b>(24,593)</b>	<b>(1,197)</b>
Net decrease in cash and cash equivalents	(754)	(2,554)	(599)
Opening cash and cash equivalents	1,310	3,793	4,545
Effect of exchange rate fluctuations on cash held	36	71	(153)
<b>Cash and cash equivalents at end of period</b>	<b>592</b>	<b>1,310</b>	<b>3,793</b>

## PART IV

### FINANCIAL INFORMATION ON FENNEL ACQUISITION LIMITED

#### Section A – Accountants Report on the Fennel Acquisition Limited Historical Consolidated Financial Information



**KPMG LLP**  
**Transaction Services**  
100 Temple Street  
Bristol BS1 6AG  
United Kingdom

The Directors  
Finsbury Food Group Plc  
Maes y Coed Road  
Cardiff  
CF14 4XR

10 October 2014

Gentlemen

#### **Fennel Acquisition Limited**

We report on the financial information set out on pages 37 to 69 for the three periods ended 29 March 2014. This financial information has been prepared for inclusion in the AIM Admission Document dated 10 October 2014 of Finsbury Foods Group Plc on the basis of the accounting policies set out in note 1. This report is required by Paragraph (a) of Schedule Two of the AIM Rules for Companies and is given for the purpose of complying with that paragraph and for no other purpose.

#### **Responsibilities**

The Directors of Finsbury Food Group Plc are responsible for preparing the financial information on the basis of preparation set out in note 1 to the financial information and in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Paragraph (a) of Schedule Two of the AIM Rules for Companies to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Schedule Two of the AIM Rules for Companies, consenting to its inclusion in the Admission Document.

#### **Basis of opinion**

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

**Opinion on financial information**

In our opinion, the financial information gives, for the purposes of the AIM Admission Document dated 10 October 2014, a true and fair view of the state of affairs of Fennel Acquisition Limited as at 31 March 2012, 30 March 2013 and 29 March 2014 and of its profits and losses, cash flows and changes in equity for the three periods ending 29 March 2014 in accordance with the basis of preparation set out in note 1 and in accordance with International Financial Reporting Standards as adopted by the European Union.

**Declaration**

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules for Companies we are responsible for this report as part of the AIM Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM Admission Document in compliance with Schedule Two of the AIM Rules for Companies

Yours faithfully

KPMG LLP

**PART IV**

**FINANCIAL INFORMATION ON FENNEL ACQUISITION LIMITED**

**Section B – Fennel Acquisition Limited Historical Consolidated Financial Information**

**Consolidated Statements of Comprehensive Income**

	<i>Note</i>	<b>Year ended 29 March 2014 £000</b>	<b>Year ended 30 March 2013 £000</b>	<b>53 week period ended 31 March 2012 £000</b>
<b>Revenue</b>	2	94,952	99,119	105,576
Cost of sales		(76,084)	(78,941)	(89,472)
<b>Gross profit</b>		18,868	20,178	16,104
Distribution expenses		(14,202)	(14,279)	(14,873)
Administrative expenses – Recurring		(2,351)	(2,869)	(2,339)
Administrative expenses – Exceptional costs of restructuring	3	(2,637)	(317)	—
Administrative expenses – Total	3	(4,988)	(3,186)	(2,339)
(Loss)/profit on disposal of property, plant & equipment	3	(568)	(216)	9,636
<b>Operating (loss)/profit</b>	3	(890)	2,497	8,528
Financial income	5	4	6	6
Financial expenses	5	(1,262)	(3,382)	(4,047)
Net financing expense		(1,258)	(3,376)	(4,041)
<b>(Loss)/profit before tax from continuing operations</b>		(2,148)	(879)	4,487
Taxation	6	1,243	787	—
<b>(Loss)/profit for the period</b>		(905)	(92)	4,487
<b>Other comprehensive income</b>		—	—	—
<b>Other comprehensive income for the financial period, net of tax</b>		—	—	—
<b>Total comprehensive income for the financial period</b>		(905)	(92)	4,487
<b>Operating (loss)/profit as stated above</b>		(890)	2,497	8,528
Depreciation		3,694	3,211	3,674
Exceptional costs of restructuring		2,637	317	—
Loss/(profit) on disposal of property, plant & equipment		568	216	(9,636)
<b>Total Profit before interest, tax, depreciation and exceptional items (Adjusted EBITDA)</b>		<b>6,009</b>	<b>6,241</b>	<b>2,566</b>

The results for the financial periods presented above are all from continuing operations.

## Consolidated Balance Sheets

		At 29 March 2014 £000	At 30 March 2013 £000	At 31 March 2012 £000
	<i>Note</i>			
<b>Non-current assets</b>				
Property Plant and Equipment	7	23,292	21,354	16,980
Deferred tax assets	9	4,512	3,269	2,482
		<u>27,804</u>	<u>24,623</u>	<u>19,462</u>
<b>Current assets</b>				
Inventories	10	5,928	5,162	5,063
Trade and other receivables	11	13,092	13,201	23,405
Cash and cash equivalents	12	6,371	8,042	7,528
		<u>25,391</u>	<u>26,405</u>	<u>35,996</u>
<b>Total assets</b>		<u><u>53,195</u></u>	<u><u>51,028</u></u>	<u><u>55,458</u></u>
<b>Current liabilities</b>				
Other interest bearing loans and borrowings	13	17,281	8,513	13,828
Trade and other payables	14	22,315	21,934	23,870
		<u>39,596</u>	<u>30,447</u>	<u>37,698</u>
<b>Non-current liabilities</b>				
Other interest-bearing loans and borrowings	13	2,266	8,343	33,452
		<u>2,266</u>	<u>8,343</u>	<u>33,452</u>
<b>Total liabilities</b>		<u><u>41,862</u></u>	<u><u>38,790</u></u>	<u><u>71,150</u></u>
<b>Net assets/(liabilities)</b>		<u><u>11,333</u></u>	<u><u>12,238</u></u>	<u><u>(15,692)</u></u>
<b>Equity attributable to equity holders of the parent</b>				
Share capital	17	1	1	1
Share premium	17	1,793	1,793	1,793
Capital contribution reserve	17	28,022	28,022	—
Retained earnings	17	(18,483)	(17,578)	(17,486)
<b>Total equity</b>		<u><u>11,333</u></u>	<u><u>12,238</u></u>	<u><u>(15,692)</u></u>

An opening balance sheet at 27 March 2011 can be found in note 22.

## Consolidated Statements of Changes in Equity

	Share capital £000	Share premium £000	Capital contribution £000	Retained earnings £000	Total equity £000
<b>Balance at 27 March 2011</b>	1	1,793	—	(21,973)	(20,179)
<b>Total comprehensive income for the period</b>					
Profit for the period	—	—	—	4,487	4,487
Total comprehensive income for the period	—	—	—	4,487	4,487
<b>Balance at 31 March 2012 and 1 April 2012</b>	<b>1</b>	<b>1,793</b>	<b>—</b>	<b>(17,486)</b>	<b>(15,692)</b>
<b>Total comprehensive income for the year</b>					
Profit for the year	—	—	—	(92)	(92)
Total comprehensive income for the year	—	—	—	(92)	(92)
<b>Transactions with owners, recorded directly in equity</b>					
Capital contribution	—	—	28,022	—	28,022
Total contributions by and distributions to owners	—	—	28,022	—	28,022
<b>Balance at 30 March 2013 and 31 March 2013</b>	<b>1</b>	<b>1,793</b>	<b>28,022</b>	<b>(17,578)</b>	<b>12,238</b>
<b>Total comprehensive income for the year</b>					
Loss for the year	—	—	—	(905)	(905)
Total comprehensive income for the year	—	—	—	(905)	(905)
<b>Balance at 29 March 2014</b>	<b>1</b>	<b>1,793</b>	<b>28,022</b>	<b>(18,483)</b>	<b>11,333</b>

## Consolidated Statements of Cash Flows

		Year ended 29 March 2014 £000	Year ended 30 March 2013 £000	53 week period ended 31 March 2012 £000
<b>Cash flows from operating activities</b>				
(Loss)/profit for the period		(905)	(92)	4,487
<i>Adjustments for:</i>				
Depreciation	7	3,694	3,211	3,674
Financial income	5	(4)	(6)	(6)
Financial expense	5	1,262	3,382	4,047
Loss/(profit) on disposal of property, plant and equipment		568	216	(9,636)
Taxation	6	(1,243)	(787)	—
		<u>3,372</u>	<u>5,924</u>	<u>2,566</u>
(Increase)/decrease in trade and other receivables		109	394	1,027
Decrease)/(increase) in inventories		(766)	(99)	(319)
Increase/(decrease) in trade and other payables		339	(1,887)	1,029
		<u>3,054</u>	<u>4,332</u>	<u>4,303</u>
<b>Net cash from operating activities</b>				
<b>Cash flows from investing activities</b>				
Proceeds from sale of property, plant and equipment		20	9,810	912
Interest received		4	6	6
Acquisition of property, plant and equipment		(6,220)	(7,803)	(1,590)
		<u>(6,196)</u>	<u>2,013</u>	<u>(672)</u>
<b>Net cash from investing activities</b>				
<b>Cash flows from financing activities</b>				
Draw down/(repayment) of bank loans		8,768	(5,330)	57
Repayment of loan notes	13	(6,934)	—	—
Interest paid		(363)	(501)	(746)
		<u>1,471</u>	<u>(5,831)</u>	<u>(689)</u>
<b>Net cash from financing activities</b>				
Net (decrease)/increase in cash and cash equivalents		(1,671)	514	2,942
Cash and cash equivalents at beginning of period		8,042	7,528	4,586
<b>Cash and cash equivalents at end of period</b>	12	<u><u>6,371</u></u>	<u><u>8,042</u></u>	<u><u>7,528</u></u>

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

#### 1.1 Basis of preparation

This group financial information for the periods ended 29 March 2014, 30 March 2013 and 31 March 2012 has been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”).

The Group has previously prepared statutory accounts under UK GAAP and an explanation of the differences on transition to Adopted IFRSs is given in note 22.

The Group is preparing its financial statements in accordance with Adopted IFRS for the first time. The date of transition to Adopted IFRSs is 27 March 2011, which is the beginning of the earliest comparative period presented. An opening balance sheet at 27 March 2011 can be found in note 22. In preparing the financial information, the Group has applied IFRS 1 “First time adoption of International Financial Reporting standards”, and has elected to use the following exemptions:

- Business combinations – Business combinations that took place prior to 27 March 2011 have not been restated.
- Borrowing Costs – IAS 23 borrowing costs has not been retrospectively applied prior to 27 March 2011 and hence any borrowing costs incurred to construct qualifying assets prior to 27 March 2011 have not been capitalised into the cost of the assets.

The group financial information consolidates those of the Company and its subsidiaries (together referred to as the “Group”).

#### *Accounting period*

The financial information presented covers the year ended 29 March 2014, year ended 30 March 2013 and 53 week period ended 31 March 2012.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 27 March 2011 for the purposes of the transition to Adopted IFRSs.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 21.

#### 1.2 Measurement convention

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

#### 1.3 Going concern

The financial information has been prepared on a going concern basis, notwithstanding the fact that current liabilities exceed current assets. The directors have taken steps to ensure that they can conclude that the Group has adequate resources to continue in business for the foreseeable future and thus that the going concern basis of preparation remains appropriate. The key considerations are summarised below:

- In December 2013 new financing facilities were arranged with ABN AMRO Bank N.V. that secure funding for the company for the next five years. This is an overall increased facility compared to the previous facility from GE Capital, and is more competitively priced, reflecting the improvement in performance and evolution of the business.
- As part of the refinancing activity in December 2013, loan notes of £6.9m from the ultimate parent undertaking were repaid. The remaining loan notes and accruing interest have a maturity date of 2037 and all other terms and conditions remain the same.
- A risk sensitised cash flow forecasting exercise performed for the period to 30 September 2015, and the Group’s 3 year business plan to March 2017, shows that the Group has sufficient funds available to meet its trading obligations as they fall due over that period without the need for additional borrowing facilities.
- Management reporting includes a forecast cash balance, and this is updated regularly to ensure that the Group has visibility of its future cash availability.

- The markets in which the business operates are not considered to be at significant risk due to the current global economic downturn.
- There are not believed to be any contingent liabilities which could result in a significant impact on the business if they were to crystallise.

Note 16 to the financial information includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk.

#### **1.4 Basis of consolidation**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial information of subsidiaries are included in the consolidated financial information from the date that control commences until the date that control ceases. Intra-group balances and transactions are eliminated in preparing the financial information.

#### **1.5 Foreign currency**

Transactions in foreign currencies are translated to the functional currency of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the period end date are retranslated to the functional currency at the foreign exchange rate ruling at that date.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the consolidated statement of comprehensive income in the period in which they arise.

#### **1.6 Classification of financial instruments issued by the Group**

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

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

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

#### **1.7 Non-derivative financial instruments**

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

##### *Trade and other receivables*

The value of trade and other receivables is the amount that would be received if the debt was cleared on the period end date.

##### *Trade and other payables*

The value of trade and other payables is the value that would be payable to settle the liability at the period end date.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances. Bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management are included as a component of cash and cash equivalents.

### *Interest-bearing borrowings*

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

The Group does not have any derivative financial instruments.

### **1.8 Property, plant and equipment**

Items of property, plant and equipment are measured at cost or fair value at the date of acquisition, less accumulated depreciation and impairment provisions. Costs include expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and directly labour and any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Depreciation is provided to write off the cost, less estimated residual value, of the property, plant and equipment by equal instalments over their estimated useful economic lives to the consolidated statement of comprehensive income. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The depreciation rates used are as follows:

- freehold buildings                      40 years
- leasehold improvements            between 5 and 10 years
- plant and machinery                between 2 and 10 years

No depreciation is charged on freehold land.

Impairment reviews of fixed assets are undertaken if there are indications that the carrying values may not be recoverable.

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets acquired by finance lease are depreciated over the lease term or their useful lives.

Obligations under finance leases are included in liabilities net of the finance charge allocate to future periods. The finance element of the rental payment is charged to the consolidated statement of comprehensive income as finance expense so as to produce a constant periodic rate of charge on the net obligations outstanding in each period.

Other leases are operating leases and the leased assets are not recognised in the Group's consolidated statement of financial position.

Lease payments are accounted for as described below in 1.15.

### **1.9 Business combinations**

Subject to the transitional relief in IFRS 1, all business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

There have been no acquisitions on or after 27 March 2011 but the accounting policy below will apply if such an acquisition is made.

#### *Acquisitions on or after 27 March 2011*

For acquisitions on or after 27 March 2011, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

On a transaction-by-transaction basis, the Group elects to measure non-controlling interests, which have both present ownership interests and are entitled to a proportionate share of net assets of the acquiree in the event of liquidation, either at its fair value or at its proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date. All other non-controlling interests are measured at their fair value at the acquisition date.

#### *Acquisitions prior to the 27 March 2011 IFRS transition date*

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The Group has elected not to restate business combinations that took place prior to 27 March 2011. In respect of acquisitions prior to 1 January 2011 the goodwill is included on the basis of its deemed cost, which represents the net book value recorded under UK GAAP.

### **1.10 Research and development expenditure**

#### *Research and development*

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the consolidated statement of comprehensive income as incurred.

### **1.11 Inventories**

Inventories are measured at the lower of cost and net realisable value. Cost is determined on the first-in first-out basis, and includes all direct costs incurred and attributable production overheads. Net realisable value is based upon estimated selling price allowing for all further costs of completion and disposal. Specific provisions are made against old and obsolete stock taking the value to zero or an estimated reduced value based on the most likely route for disposal of each particular item of stock.

### **1.12 Impairment excluding inventories and deferred tax assets**

#### *Financial assets (including receivables)*

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

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

#### *Non-financial assets*

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

### **1.13 Employee benefits**

#### *Defined contribution plans*

The costs of contributing to defined contribution and personal pension (2 employees only) schemes are charged to the consolidated statement of comprehensive income as an administration cost in the period to which they relate.

### **1.14 Revenue**

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods. Revenue is measured at the fair value of the

consideration received, net of discounts, rebates, VAT and other sales taxes or duty. Rebates, over-riders and marketing allowances are all accounted for in line with customer agreements and within the accounting period to which they accrue.

### **1.15 Expenses**

#### *Operating lease payments*

Payments made under operating leases are recognised in the consolidated statement of comprehensive income on a straight-line basis over the term of the lease.

#### *Finance lease payments*

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

#### *Exceptional items*

Items which are significant by virtue of their size or nature and which are considered to be non-recurring are classified as exceptional operating items. Such items, which include for instance the costs of closing or opening factories, costs of significant restructurings and profits or losses or impairments made, are included within the appropriate consolidated statement of comprehensive income category but are highlighted separately on the primary statement and in the notes to the financial information.

#### *Finance income and cost*

Finance costs comprise loan note interest payable and loan and overdraft interest payable. Finance income comprises interest receivable on funds invested.

### **1.16 Taxation**

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income 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 or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the period end date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for

- the initial recognition of goodwill;
- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and
- the differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

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 period end date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

### **1.17 Adopted IFRS not yet applied**

The following Adopted IFRSs have been issued but have not been applied by the Group in this financial information. Their adoption is not expected to have a material effect on the financial information unless otherwise indicated:

- IFRS 9 Financial Instruments (effective date not yet confirmed and standard not yet endorsed by the EU)
- IFRS 15 Revenue from Contracts with Customers (effective date 31 March 2018, not yet endorsed by the EU)
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS16 and IAS38) (effective date 31 March 2017)
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS11) (effective date 31 March 2017)

The effective dates above are the year ends in which the Group will have to adopt the relevant IFRSs.

### ***1.18 Segmental Reporting***

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All segments' operating results are reviewed regularly by the Board of Directors. The Group's Chief Operating Decision Maker is considered to be the Board of Directors as they are primarily responsible for the allocation of resources to segments and the assessment of performance by segment.

The board of directors consider that all sales constitute one class of business and all occur in the UK.

## **2 Segmental reporting**

The Group's revenue and profit was derived from its principal activity which is the manufacture of bread and bakery products.

In accordance with IFRS 8 'Operating Segments', the Group has made the following considerations to arrive at the disclosure made in this financial information.

IFRS 8 requires consideration of the Chief Operating Decision Maker ("CODM") within the Group. In line with the Group's internal reporting framework and management structure, the key strategic and operating decisions are made by the Board of Directors, who review internal monthly management reports, budgets and forecast information as part of this. Accordingly, the Board of Directors are deemed to be the CODM.

Operating segments have then been identified based on the internal reporting information and management structures within the Group. From such information it has been noted that the CODM reviews the business as 3 separate UK manufacturing sites, receiving internal information on that basis. In line with IFRS 8, these 3 manufacturing sites meet the criteria for aggregation into a single reportable segment as they have similar economic characteristics and produce similar products.

### **Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items**

Information regarding the results of the reportable segment is included below. Performance is measured based on segment EBITDA, as included in the internal management reports that are reviewed by the Board of Directors. Segment EBITDA is used to measure performance. There are no material inter-segment transactions. Revenues disclosed below materially represent revenues to external customers.



	Year ended 29 March 2014 £000	Year ended 30 March 2013 £000	53 week period ended 31 March 2012 £000
<b>Liabilities</b>			
Total liabilities for reportable segment	39,620	30,486	37,698
Unallocated amounts:			
Loan notes	2,242	8,304	33,452
Consolidated total liabilities	<u>41,862</u>	<u>38,790</u>	<u>71,150</u>

### Major customers

Transactions with the Group's major customers are set out below. There are 3 major customers, which represent 21.7%, 15.1% and 12.2% of the Group's total revenues respectively (2013: 35.0%, 14.0% and 10.5% respectively, 2012: 39.1%, 15.2% and 9.6% respectively).

	Year ended 29 March 2014 £000	Year ended 30 March 2013 £000	53 week period ended 31 March 2012 £000
Major customer 1	20,597	34,706	41,332
Major customer 2	14,356	13,923	16,024
Major customer 3	11,568	10,412	10,155

### 3 Result for the financial period

The result for the financial period is stated after charging/(crediting) the following amounts:

	Year ended 29 March 2014 £000	Year ended 30 March 2013 £000	53 week period ended 31 March 2012 £000
Depreciation of property, plant & equipment – owned	3,687	3,207	3,674
Depreciation of property, plant & equipment – leased	7	4	—
Loss/(profit) on disposal of property, plant and equipment	568	216	(9,636)
Rentals under operating leases – land & buildings	1,020	1,059	1,108
Rentals under operating leases – plant & machinery	441	524	461
<i>Exceptional items:</i>			
Exceptional cost of restructuring	2,637	317	—

In August 2013 the business located in Barnsley was closed. All trading operations and relationships along with principal assets were transferred to the Grain D'Or business in London. There has been no loss of turnover or a significant change in operations as a result of this closure. The exceptional revenue costs to transfer the business, develop the London site and close the Barnsley site were £2,637,000.

In the year ended 30 March 2013, prior to the decision being made to close the Barnsley business, restructuring costs of £317,000 were incurred by the Grain D'Or business in London.

On 23 March 2012, the Group entered into an agreement to sell approximately 3 acres of predominantly unused land at the Sheffield location. In order to facilitate the sale, the business

relocated several functions within the site, and in so doing increased the long term capacity of the business. The profit on sale of the land was £9.6 million. The proceeds were received over 11 months to January 2013 and a significant proportion were re-invested directly into the Sheffield business during the year ended 30 March 2013.

#### 4 Staff numbers and costs

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

	Year ended 29 March 2014 No.	Year ended 30 March 2013 No.	53 week period ended 31 March 2012 No.
Production	613	723	802
Distribution	51	46	46
Administration	19	22	21
	<u>683</u>	<u>791</u>	<u>869</u>

The aggregate payroll costs of these persons were as follows:

	Year ended 29 March 2014 £000	Year ended 30 March 2013 £000	53 week period ended 31 March 2012 £000
Wages and salaries	22,184	23,558	23,625
Social security costs	1,675	1,793	3,096
Contributions to defined contribution plans (see note 15)	302	283	263
	<u>24,161</u>	<u>25,634</u>	<u>26,984</u>

Redundancy costs of £807,000 were paid in the year in addition to the above (*year ended 30 March 2013: £377,000 and 53 week period ended 31 March 2012: £205,000*) and were included within exceptional costs (note 3).

#### 5 Finance income and cost

Recognised in the consolidated statement of comprehensive income

	Year ended 29 March 2014 £000	Year ended 30 March 2013 £000	53 week period ended 31 March 2012 £000
<b>Finance income</b>			
Interest income	<u>4</u>	<u>6</u>	<u>6</u>

	Year ended 29 March 2014 £000	Year ended 30 March 2013 £000	53 week period ended 31 March 2012 £000
<b>Finance cost</b>			
Total interest expense on financial liabilities measured at amortised cost	1,262	3,382	4,047

## 6 Taxation

### Recognised in the statement of comprehensive income

	Year ended 29 March 2014 £000	Year ended 30 March 2013 £000	53 week period ended 31 March 2012 £000
<b>Current tax expense</b>			
Current year	—	—	—
Current tax expense	—	—	—
<b>Deferred tax expense (see note 9)</b>			
Origination and reversal of temporary differences	1,669	890	191
Reduction in tax rate	(426)	(103)	(191)
Deferred tax expense	1,243	787	—
Total tax credit on continuing operations	1,243	787	—

The corporation tax rate applicable to the company was 26% in the 53 week period to 31 March 2012. A reduction in the rate from 26% to 24% (effective from 1 April 2012) was substantively enacted on 26 March 2012. The deferred tax asset at 31 March 2012 has been calculated based on the rate of 24% substantively enacted at the balance sheet date.

The corporation tax rate applicable to the company was 24% in the year to 30 March 2013. The 2012 Budget on 21 March 2012 announced the UK Corporation tax rate would reduce to 22% by 2014 and the December 2012 Autumn Statement announced a further reduction to 21% by 2014. A reduction in the rate from 25% to 24% (effective from 1 April 2012) was substantively enacted on 26 March 2012, and a further reduction to 23% (effective 1 April 2013) was substantially enacted on 3 July 2012. The deferred tax asset at 30 March 2013 has been calculated based on the rate of 23% substantively enacted at the balance sheet date.

The corporation tax rate applicable to the company was 23% in the year to 29 March 2014. The March 2013 Budget announced that the UK corporation tax rate would further reduce to 20% (effective from 1 April 2015) in addition to the planned reduction to 21% (effective from 1 April 2014) previously announced. These reductions were substantively enacted on 2 July 2013. The deferred tax asset has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

## Reconciliation of effective tax rate

	Year ended 29 March 2014 £000	Year ended 30 March 2013 £000	53 week period ended 31 March 2012 £000
(Loss)/profit for the period	(905)	(92)	4,487
Total tax credit	(1,243)	(787)	—
(Loss)/profit excluding taxation	<u>(2,148)</u>	<u>(879)</u>	<u>4,487</u>
Standard rate of UK corporation tax	23%	24%	26%
Tax using the UK corporation tax rate for the relevant period	(494)	(211)	1,167
Non-deductible expenses	187	240	278
Ineligible depreciation	182	130	122
Non-taxable income	—	—	(834)
Change in tax rate impact on deferred tax	426	103	191
Recognition and utilisation of tax losses previously unprovided	(1,544)	(1,049)	(924)
Total tax credit on continuing operations	<u>(1,243)</u>	<u>(787)</u>	<u>—</u>

## 7 Property, plant and equipment

	Freehold land and buildings £000	Plant and machinery £000	Total £000
<b>Cost</b>			
Balance at 27 March 2011	3,674	32,085	35,759
Additions	—	1,590	1,590
Disposals	(773)	—	(773)
Balance at 31 March 2012 & 1 April 2012	<u>2,901</u>	<u>33,675</u>	<u>36,576</u>
Additions	—	7,803	7,803
Disposals	—	(3,667)	(3,667)
Balance at 30 March 2013 & 31 March 2013	<u>2,901</u>	<u>37,811</u>	<u>40,712</u>
Additions	1,971	4,249	6,220
Disposals	—	(2,806)	(2,806)
<b>Balance at 29 March 2014</b>	<u><u>4,872</u></u>	<u><u>39,254</u></u>	<u><u>44,126</u></u>

	Freehold land and buildings £000	Plant and machinery £000	Total £000
<b>Depreciation and impairment</b>			
Balance at 27 March 2011	875	15,401	16,276
Depreciation charge for the period	150	3,524	3,674
Disposals	(354)	—	(354)
Balance at 31 March 2012 & 1 April 2012	671	18,925	19,596
Depreciation charge for the period	130	3,081	3,211
Disposals	—	(3,449)	(3,449)
Balance at 30 March 2013 & 31 March 2013	801	18,557	19,358
Depreciation charge for the period	187	3,507	3,694
Disposals	—	(2,218)	(2,218)
<b>Balance at 29 March 2014</b>	<b>988</b>	<b>19,846</b>	<b>20,834</b>
<b>Net book value as at 29 March 2014</b>	<b>3,884</b>	<b>19,408</b>	<b>23,292</b>
Net book value as at 30 March 2013	2,100	19,254	21,354
Net book value as at 31 March 2012	2,230	14,750	16,980
Net book value as at 27 March 2011	2,799	16,684	19,483

## 8 Investments in subsidiaries

The Group has the following investments in subsidiaries:

Subsidiaries	Principle activity	Country of incorporation	Registered Number	Year-end	Class of Ownership Shares held	
Fletchers Bakeries Investments Limited	Investment holding company	UK	05998313	31 Mar	Ordinary	100%
Fletchers Bakeries Limited	Manufacturer of bread and bakery products	UK	00249790	31 Mar	Ordinary	100%

## 9 Deferred tax assets and liabilities

*Recognised deferred tax assets and liabilities*

Deferred tax assets and liabilities are attributable to the following:

	Year ended 29 March 2014 £000	Year ended 30 March 2013 £000	53 week period ended 31 March 2012 £000
<b>Assets</b>			
Property, plant and equipment	712	1,836	1,159
Short term timing differences	167	182	155
Tax value of loss carry-forwards	3,633	1,251	1,168
Tax assets	4,512	3,269	2,482

The tax losses in years to 29 March 2014 and 30 March 2013 were due to exceptional costs of restructuring incurred (note 3). Management forecasts show the company returning to pre-tax profits for years ended 30 March 2015 and beyond and therefore a deferred tax asset of £3,633,000 in respect of losses carried forward has been recognised.

In addition, there is an unrecognised deferred tax asset of £663,493 (2013: £2,518,402, 2012: £5,044,788) which has not been recognised on the basis that future recovery is uncertain. These deferred tax assets have been calculated using a deferred tax rate of 20% (2013: 23%, 2012: 24%).

*Movement in deferred tax during the period*

	<b>At 31 March 2013 £000</b>	<b>Recognised in income £000</b>	<b>At 29 March 2014 £000</b>
Property, plant and equipment	1,836	(1,124)	712
Short term timing differences	182	(15)	167
Tax value of loss carry-forwards	1,251	2,382	3,633
	<u>3,269</u>	<u>1,243</u>	<u>4,512</u>

	<b>At 1 April 2012 £000</b>	<b>Recognised in income £000</b>	<b>At 30 March 2013 £000</b>
Property, plant and equipment	1,159	677	1,836
Short term timing differences	155	27	182
Tax value of loss carry-forwards	1,168	83	1,251
	<u>2,482</u>	<u>787</u>	<u>3,269</u>

	<b>At 27 March 2011 £000</b>	<b>Recognised in income £000</b>	<b>At 31 March 2012 £000</b>
Property, plant and equipment	(1,268)	2,427	1,159
Short term timing differences	42	113	155
Tax value of loss carry-forwards	3,708	(2,540)	1,168
	<u>2,482</u>	<u>—</u>	<u>2,482</u>

**10 Inventories**

	<b>At 29 March 2014 £000</b>	<b>At 30 March 2013 £000</b>	<b>At 31 March 2012 £000</b>
Raw materials and consumables	1,413	1,359	1,175
Work in progress	32	27	1
Finished goods	4,483	3,776	3,887
	<u>5,928</u>	<u>5,162</u>	<u>5,063</u>

Raw materials, consumables and changes in finished goods recognised as cost of sales in the period amounted to £49,460 (year ended 30 March 2013: £42,771, 53 week period ended 31 March 2012:

£41,469). The write-down of inventories to net realisable value amounted to £126k (year ended 30 March 2013: credit of £57k, 53 week period ended 31 March 2012: credit of £11k). No inventories are recoverable in more than 12 months.

## 11 Trade and other receivables

	At 29 March 2014 £000	At 30 March 2013 £000	At 31 March 2012 £000
<b>Current</b>			
Trade receivables	11,005	11,802	12,856
Other receivables	918	712	9,843
Prepayments	1,169	687	706
	<u>13,092</u>	<u>13,201</u>	<u>23,405</u>

## 12 Cash and cash equivalents

	At 29 March 2014 £000	At 30 March 2013 £000	At 31 March 2012 £000
Cash and cash equivalents	<u>6,371</u>	<u>8,042</u>	<u>7,528</u>

## 13 Other interest-bearing loans and borrowings

This note contains information about the Group's interest bearing loans and borrowings which are carried at amortised cost.

	At 29 March 2014 £000	At 30 March 2013 £000	At 31 March 2012 £000
<b>Non-current liabilities</b>			
Bank loans	—	—	—
Finance lease liabilities	24	39	—
Loan notes	2,242	8,304	33,452
	<u>2,266</u>	<u>8,343</u>	<u>33,452</u>
<b>Current liabilities</b>			
Bank loans	17,266	8,498	13,828
Finance lease liabilities	15	15	—
	<u>17,281</u>	<u>8,513</u>	<u>13,828</u>
<b>Total liabilities</b>			
Bank loans	17,266	8,498	13,828
Finance lease liabilities	39	54	—
Loan notes	2,242	8,304	33,452
	<u>19,547</u>	<u>16,856</u>	<u>47,280</u>

### Bank loans

Bank loans at 29 March 2014 represent a revolving credit facility from ABN AMRO Bank N.V. which is secured on the Group's trade receivables, and loans secured on the Group's property, plant

and equipment. These attract interest at 2% over LIBOR for the revolving credit facility, 2.25% over LIBOR for the property, plant and equipment loans and 3.5% over LIBOR for the cash flow facility.

Bank loans at 30 March 2013 and 31 March 2012 represent a revolving credit facility from GE Capital which is secured on the Group's trade receivables, and loans secured on the Group's property, plant and equipment. These attract interest at 2% over LIBOR for the revolving credit facility and 2.5% over LIBOR for property, plant and equipment loans.

#### *Loan notes*

In December 2013 loan notes and accrued interest of £6,934,000 were repaid to the ultimate parent undertaking (see note 1). Loan notes accrue interest at 10% or 15% on funding issued and this is rolled up onto the outstanding loan note balance at the option of the group annually at 31 December. Loan notes have a maturity date of 2037.

On 19 December 2012 £28,022,256 of loan notes and accrued interest were waived by the ultimate parent undertaking.

In the 53 week period ended 31 March 2012, loan notes were reclassified from current to non-current liabilities because on 7 July 2011 the group restructured the loan notes, so that they became repayable in 2037 rather than on demand.

#### *Finance lease liabilities*

Finance lease liabilities are payable as follows:

	<b>Minimum lease payments</b>			<b>Minimum lease payments</b>		
	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>		
	<b>29 March</b>	<b>29 March</b>	<b>30 March</b>	<b>30 March</b>	<b>30 March</b>	
	<b>2014</b>	<b>2014</b>	<b>2013</b>	<b>2013</b>	<b>2013</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	
Less than one year	18	3	15	18	15	
Between one and five years	33	9	24	51	39	
	<b>51</b>	<b>12</b>	<b>39</b>	<b>69</b>	<b>54</b>	

There were no finance lease liabilities at 31 March 2012.

## **14 Trade and other payables**

	<b>At</b>	<b>At</b>	<b>At</b>
	<b>29 March</b>	<b>30 March</b>	<b>31 March</b>
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Current</b>			
Trade payables	14,225	14,359	14,978
Other trade payables	3,998	4,778	5,625
Accruals and deferred income	3,674	2,293	2,701
Other taxation and social security	418	504	566
	<b>22,315</b>	<b>21,934</b>	<b>23,870</b>

## **15 Employee benefits**

### **Defined contribution plans**

The Group operates a defined contribution pension plan that was closed to new members in December 2012. Since October 2013 the Group has also operated a defined contribution pension plan that satisfies the auto enrolment legislation requirements.

The total expense relating to these plans in the current year was £302,000 (2013: £283,000, 2012: £263,000).

## 16 Financial instruments

### *Financial risk management*

The Fennel Acquisition Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's policies on the management of liquidity, credit, interest rate and foreign currency risks are set out below.

The main purpose of the Group's financial instruments which comprise of bank loans, loan notes, finance leases, cash and liquid resources and various items arising directly from its operations, such as trade receivables and trade payables, is to finance the Group's operations.

### *Risk management framework*

Regular group-wide reviews of strategic risks are performed by the Board of Directors. The subsidiaries are also required to carry out periodic risk assessments of their business for discussion with this team.

During their monthly meetings, the Senior Executive Management Team consider and ensure the management of the key operational risk of volatility of raw material prices.

Exposure to foreign currency is minimised through a company policy of dealing almost exclusively in sterling. Less than 0.5% of purchases or sales are in foreign currency, and as such the risk attributable is deemed to be non-material.

General commercial risk is considered through regular risk assessments performed as part of the insurance review and the appropriate insurance policies put in place.

#### *a) Liquidity risk*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's policy is to ensure that it has facilities to cover its funding requirements. The Group prepares an annual budget and reviews its impact upon the covenants in place. On a weekly basis, cash flow forecasts are updated to identify any significant changes. Short term flexibility is available through revolving credit facilities. The carrying amounts are the amounts due if settled at the period end date. The contractual undiscounted cash flows include estimated interest payments over the life of these facilities based on the contractually enforceable repayment dates.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements. The loan notes, as described in note 13 are subject to cumulative interest charges of 10% and 15% respectively and have a mandatory repayment date of 2037.

	Carrying amount		Contractual cash flows including interest			
	Year ended	Total	Within			Over
	29 March	29 March	1 year	1-2 years	2-5 years	5 years
	2014	2014	1 year	1-2 years	2-5 years	5 years
	£000	£000	£000	£000	£000	£000
<b>Non derivative financial liabilities</b>						
Bank loan	17,266	18,071	11,136	2,526	4,409	—
Trade payables	14,225	14,225	14,225	—	—	—
Finance lease liabilities	39	52	15	15	22	—
Loan notes	2,242	41,895	—	—	—	41,895
	<u>33,772</u>	<u>74,243</u>	<u>25,376</u>	<u>2,541</u>	<u>4,431</u>	<u>41,895</u>

	Carrying amount	Contractual cash flows including interest				
	Year ended	Total	Within	1-2 years	2-5 years	Over
	30 March	30 March	1 year	1-2 years	2-5 years	5 years
	2013	2013	1 year	1-2 years	2-5 years	5 years
	£000	£000	£000	£000	£000	£000
<b>Non derivative financial liabilities</b>						
Bank loan	8,498	8,715	8,715	—	—	—
Trade payables	14,339	14,339	14,339	—	—	—
Finance lease liabilities	54	67	15	15	37	—
Loan notes	8,304	242,938	—	—	—	242,938
	31,195	266,059	23,069	15	37	242,938

	Carrying amount	Contractual cash flows including interest				
	53 week	Total	Within	1-2 years	2-5 years	Over
	period ended	31 March	1 year	1-2 years	2-5 years	5 years
	31 March	2012	1 year	1-2 years	2-5 years	5 years
	£000	£000	£000	£000	£000	£000
<b>Non derivative financial liabilities</b>						
Bank loan	13,828	14,426	11,667	1,096	772	892
Trade payables	14,978	14,978	14,978	—	—	—
Loan notes	33,452	548,194	—	—	—	548,194
	62,258	577,598	26,645	1,096	772	549,086

*b) Credit risk*

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

These trading exposures are monitored and managed at operating level and monitored at Group level. Almost all customers are UK based and the large majority of turnover is with blue chip companies. Any new customer requesting a credit account is credit checked using an external credit reference agency who recommend a credit limit for that particular customer. There are a number of internal approval processes in place to ensure the most appropriate credit limit is given to each customer. These credit limits are reviewed and monitored on a regular basis. At the period end date there were no significant concentrations of credit risk except for the major customers disclosed in note 2 and outlined below.

The carrying amount of the financial assets represents the maximum credit exposure at each period end date.

b) *Credit risk*

The concentration of credit risk for trade receivables at the period end date by customer was:

	At 29 March 2014 £000	At 30 March 2013 £000	At 31 March 2012 £000
Major customer 1	2,138	2,774	4,907
Major customer 2	882	953	850
Major customer 3	2,213	1,692	1,704
	<u>5,233</u>	<u>5,419</u>	<u>7,461</u>

*Credit quality of financial assets and impairment losses*

The aging of trade receivables at the balance sheet date was:

	At 29 March 2014 £000	At 30 March 2013 £000	At 31 March 2012 £000
Not past due	10,902	11,412	12,551
Past due 0 – 30 days	195	504	370
Past due 31 – 60 days	36	29	44
Past due 61 – 90 days	17	15	31
Past due 91 – 120 days	14	2	13
Past due 121 – 150 days	14	1	7
Past due more than 150 days	15	1	71
	<u>11,193</u>	<u>11,964</u>	<u>13,087</u>

The above receivables are shown gross of the following provisions for doubtful debts.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	At 29 March 2014 £000	At 30 March 2013 £000	At 31 March 2012 £000
Opening provision against trade receivables	161	231	128
Provision increased/(utilised) in the period	41	(8)	106
Expensed in period	(14)	(62)	(3)
Closing provision for trade receivables	<u>188</u>	<u>161</u>	<u>231</u>

The allowance account for trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the trade receivables directly.

Group policy is to provide in full against all receivable balances whose full recovery is significantly in doubt. The provision is netted off the gross receivable. The Group's strategy is to focus on supplying large corporate customers. The nature of these customers is such that there is a relatively low risk of them failing to meet their contractual obligations. There is no impairment necessary to the value of trade receivables at the period end date over and above the specific credit note provision and bad debt provision held at the period end.

c) *Market Risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income.

*Foreign exchange rate risk*

The Group has a policy of not dealing in foreign currency, wherever possible. As a result, exposure to foreign exchange rate risk is minimal and, as such, no associated disclosures are required.

*Interest rate risk*

The Group's third party borrowings incur interest at between 2% and 3.5% over LIBOR which exposes the Group to cash flow interest rate risk. The Group also has shareholder borrowings in the form of loan notes described in note 13, however, interest on these is fixed; hence they don't attract the same cash flow interest rate risk.

The Group's policy, with regard to interest rate risk, is not to hedge this risk because even in the event of interest rates rising, the impact on the Group would be immaterial. This can be seen in the sensitivity analysis below.

*Profile*

At the period end date the interest rate profile of the Group's interest-bearing financial instruments was:

	At 29 March 2014 £000	At 30 March 2013 £000	At 31 March 2012 £000
<b>Variable rate instruments</b>			
Cash	6,371	8,042	7,528
Bank Loan	(17,266)	(8,498)	(13,828)
	<u>(10,895)</u>	<u>(456)</u>	<u>(6,300)</u>
<b>Fixed rate instruments</b>			
Loan note payable	(2,242)	(8,304)	(33,452)
Finance Leases	(39)	(54)	—
	<u>(2,281)</u>	<u>(8,358)</u>	<u>(33,452)</u>
<b>Total net financial liabilities</b>	<u><u>(13,176)</u></u>	<u><u>(8,814)</u></u>	<u><u>(39,752)</u></u>

*Sensitivity analysis*

An increase of 1.0 basis points in interest rates at the period end date would have decreased equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date. This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates. The analysis is performed on the same basis for the comparative periods.

	At 29 March 2014 £000	At 30 March 2013 £000	At 31 March 2012 £000
<b>Equity</b>			
Decrease	(109)	(5)	(63)
	<u>(109)</u>	<u>(5)</u>	<u>(63)</u>
<b>Profit or loss</b>			
Decrease	(109)	(5)	(63)
	<u>(109)</u>	<u>(5)</u>	<u>(63)</u>

A decrease of 1.0 basis points in interest rates would result in an equal and opposite increase in equity and profit or loss.

*d) Commodity and energy prices*

The Group maintains an expert buying team to manage its raw materials, consumables and utility costs as tightly as possible. There are key commodities used in the manufacture of bread and bakery products for which the Group enters into forward contracts. The group employs a documented strategy to establish the optimum balance between spot and forward purchases to manage the future uncertainty of these commodity prices.

The Group is a large user of electricity and gas. The Group therefore fixes prices forward for the purchase of these utilities in line with Group strategy.

**Fair values and carrying values of financial instruments**

*Trade and other payables and receivables*

The fair value of these items are considered to be their carrying value as the impact of discounting future cash flows has been assessed as not material.

*Cash and cash equivalents*

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. The fair value of short term deposits is considered to be the carrying value as the balances are held in floating rate accounts where the interest rate is reset to market rates.

*Long-term and short-term borrowings*

The fair value of bank loans and other loans approximates to its carrying value as it has an interest rate based on LIBOR.

*e) Debt and Capital Management*

The Group's objective when managing capital, which is deemed to be share capital, share premium and capital contribution reserve, is to maximise the return on net invested capital while maintaining its ongoing ability to operate and guarantee adequate returns for shareholders and benefits for other stakeholders, within a sustainable financial structure.

The Group monitors the covenants attached to its third party borrowings regularly and these are presented to the Group's bank every month. Covenants are forecast on a monthly basis for the following three months.

The Group manages its capital structure and makes appropriate decisions in light of the current economic conditions and strategic objectives of the Group.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. There were no changes in the Group's approach to capital management during the period. The Group does not have any externally imposed capital requirements. The funding requirements of the Group are met by the utilisation of shareholder and third party borrowings together with available cash.

**17 Capital and reserves**

Share capital	At 29 March 2014		At 30 March 2013		At 31 March 2012	
	Number	£	Number	£	Number	£
<i>Allotted, called up and fully paid:</i>						
Ordinary A shares of £0.01 each	84,340	843	84,340	843	80,000	800
Ordinary shares of £0.01 each	—	—	—	—	19,650	197
Ordinary B shares of £0.01 each	15,660	157	15,660	157	—	—
Ordinary C shares of £0.01 each	35,660	357	35,660	357	—	—
	<u>135,660</u>	<u>1,357</u>	<u>135,660</u>	<u>1,357</u>	<u>99,650</u>	<u>997</u>

The A ordinary shares, B ordinary shares and C ordinary shares shall have, and be subject to, the following rights and restrictions:

- a) Ordinary A and ordinary B shares shall be entitled to such dividend as the directors (with the prior consent of an Investor Director) may declare in respect of the shares from time to time.
- b) On a return of capital on liquidation or a realisation from a relevant event the ordinary A and ordinary B shareholders shall be entitled to receive an amount equal to the paid up value of their shareholdings and to participate in any amount available for distribution.
- c) Ordinary A shareholders and ordinary C shareholders shall have the right to receive notices of general meetings of the company or to attend or vote.

At 31 March 2012, the ordinary A shares and ordinary shares ranked *pari passu*.

<b>Reserve</b>	<b>Description and purpose</b>
<i>Share premium</i>	Amount subscribed for share capital in excess of nominal value.
<i>Retained earnings</i>	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income.
<i>Capital contribution reserve</i>	This reserve exists because on 19 December 2012, the ultimate parent undertaking waived £28,022,256 of loan notes and accrued interest as a capital contribution.

## 18 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	<b>At 29 March 2014 £000</b>	<b>At 30 March 2013 £000</b>	<b>At 31 March 2012 £000</b>
Less than one year	1,607	1,452	1,476
Between one and five years	5,377	5,206	5,481
More than five years	9,153	10,149	11,311
	<u>16,137</u>	<u>16,807</u>	<u>18,268</u>

## 19 Commitments

Capital commitments – during the year ended 29 April 2014, the Group entered into a contract to purchase property, plant and equipment for £24,000 (*year ended 30 March 2013: £345,000, 53 week period ended 31 March 2012: £124,000*). These commitments are expected to be settled in the following financial year.

## 20 Related parties

Eliot Management Services LLP is a director of Fennel Acquisition Limited and therefore it is disclosed as a related party in accordance with IAS 24. Eliot Luxembourg Holdco S.à r.l holds the majority of the issued share capital of Fennel Acquisition Limited and therefore it is also disclosed as a related party in accordance with IAS 24.

Fees paid to Eliot Management Services LLP in respect of management services totalled £67,000 in the year (*2013: £120,000; 2012: £257,000*). The balance payable to Eliot Management Services LLP at 29 March 2014 was £nil (*2013: £nil, 2012: £15,000*).

Fees paid to Vision Capital LLP in respect of management services totalled £66,000 in the year (*2013: £65,000; 2012: £66,000*). The balance payable to Vision Capital LLP at 29 March 2014 was £1,000 (*2013: £20,000, 2012: £19,000*).

Eliot Luxembourg Holdco SARL is disclosed as a related party as the ultimate parent undertaking of Fennel Acquisition Limited. Interest accruing to Eliot Luxembourg Holdco S.à r.l during the year pursuant to outstanding loans to the Group totalled £872,000 (*2013: £2,874,000, 2012: £3,348,000*). Interest is rolled up onto the outstanding loan balance at the option of the group annually at 31 December. At the end of the year loan notes totalling £2,242,301 (*2013: £8,304,400, 2012: £33,452,182*) (including £349,203 (*2013: £2,168,058, 2012: £11,666,707*) of accrued interest) were owed

to Eliot Luxembourg Holdco S.à r.l. £187,084 (2013: £187,084, 2012: £187,084) of PIK stock has been issued to Eliot Luxembourg Holdco S.à r.l in partial satisfaction of the accrued interest. Loan notes and accrued interest of £6,934,000 were repaid to the ultimate parent undertaking in December 2013 (see note 1) (2013: loan notes and accrued interest of £28,022,256 were waived by the ultimate parent undertaking on 19 December 2012).

#### ***Transactions with key management personnel***

Key management personnel includes 5 statutory directors. The compensation of key management personnel is as follows:

	At 29 March 2014 £000	At 30 March 2013 £000	At 31 March 2012 £000
Key management emoluments including social security costs	757	823	471
Company contributions to money purchase pension plans	28	28	27
	<u>785</u>	<u>851</u>	<u>498</u>

## **21 Accounting estimates and judgements**

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

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

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

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

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

#### *Carrying value of inventories*

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

#### *Carrying value of trade receivables*

Management review the recoverability of trade receivables at each period end to ensure they are recorded in the financial information at their recoverable amount. The allowance account for trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at which point the amounts considered irrecoverable are written off against the trade receivables directly. The allowance account also makes provision for any change in the profile of the ageing of the debt over and above specific impairments. Management use their knowledge of the Group's customers and associated market conditions to assess whether or not they record impairment losses.

#### *Assumptions relating to tax*

The Group recognises expected assets for tax based on an estimation of the likely taxes receivable, which requires significant judgement as to the ultimate tax determination of certain items. Where the

actual asset arising from these items differs from these estimates, such differences will have an impact on income tax and deferred tax assets in the period when such determination is made.

## 22 First time adoption of IFRS

The Fennel Acquisition Group has previously produced and filed financial statements under UK Generally Accepted Accounting Practice (UK GAAP). This Financial Information is required to be in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as adopted by the European Union.

As this financial information covers the periods from 27 March 2011 to 29 March 2014, the transition date is 27 March 2011.

### *Reconciliations between IFRS and UK GAAP*

Certain presentation differences between UK GAAP and IFRS have no impact on reported profit or total equity. Some line items are described differently (renamed) under IFRS compared with previous UK GAAP, although the assets and liabilities included in those line items are unaffected.

The cash flow statement for the years ended 29 March 2014, 30 March 2013 and the 53 week period ended 31 March 2012 under IFRS are the same as under UK GAAP apart from presentational differences.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period and therefore business combinations that took place prior to 27 March 2011 have not been restated.

The following IFRS adjustments have been made on transition to IFRS:

	<b>At 29 March 2014 £000</b>	<b>At 30 March 2013 £000</b>	<b>At 31 March 2012 £000</b>
Amortisation of negative goodwill	277	1,639	1,670
	<u>277</u>	<u>1,639</u>	<u>1,670</u>

The amortisation of negative goodwill represents amortisation previously recognised under UK GAAP which has been written back. On transition to IFRS, the negative goodwill has been written back to retained earnings in its entirety.

For the years ended 29 March 2014, 30 March 2013 and the 53 week period ended 31 March 2012 reconciliations of net income and equity (including as at 27 March 2011) provide a quantification of the effect of the above transition adjustments to IFRS.

Reconciliation of comprehensive income for the year ended 29 March 2014:

	Year ended 29 March 2014		
	UK GAAP £000	Transition Adjustments £000	IFRS £000
<b>Revenue</b>	94,952	—	94,952
Cost of sales	(76,084)	—	(76,084)
<b>Gross profit</b>	18,868	—	18,868
Distribution expenses	(14,202)	—	(14,202)
Administrative expenses – recurring	(2,074)	(277)	(2,351)
Administrative expenses – exceptional items	(2,637)	—	(2,637)
Loss on disposal of property, plant and equipment	—	(568)	(568)
<b>Operating (loss)/profit</b>	(45)	(845)	(890)
Loss on sale of fixed assets	(568)	568	—
Financial income	4	—	4
Financial expenses	(1,262)	—	(1,262)
Net financing expense	(1,258)	—	(1,258)
<b>(Loss)/profit before tax</b>	(1,871)	(277)	(2,148)
Taxation	1,243	—	1,243
<b>(Loss)/profit after tax for the period</b>	(628)	(277)	(905)
Other comprehensive income	—	—	—
<b>Total comprehensive income for the period</b>	(628)	(277)	(905)

Transition adjustments above include the following:

- Write back of negative goodwill amortisation within administrative expenses (£277,000)
- Presentational adjustment to recognise loss on disposal of fixed assets within operating profit (£568,000)

Reconciliation of comprehensive income for the year ended 30 March 2013 and the 53 week period ended 31 March 2012:

	Year ended 30 March 2013			53 week period ended 31 March 2012		
	UK GAAP £000	Transition Adjustments £000	IFRS £000	UK GAAP £000	Transition Adjustments £000	IFRS £000
<b>Revenue</b>	99,119	—	99,119	105,576	—	105,576
Cost of sales	(78,941)	—	(78,941)	(89,472)	—	(89,472)
<b>Gross profit</b>	20,178	—	20,178	16,104	—	16,104
Distribution expenses	(14,279)	—	(14,279)	(14,873)	—	(14,873)
Administrative expenses – recurring	(1,230)	(1,639)	(2,869)	(669)	(1,670)	(2,339)
Administrative expenses – exceptional items	(317)	—	(317)	—	—	—
(Loss)/profit on disposal of fixed assets	—	(216)	(216)	—	9,636	9,636
<b>Operating profit</b>	4,352	(1,855)	2,497	562	7,966	8,528
Loss on sale of fixed assets	(216)	216	—	9,636	(9,636)	—
Financial income	6	—	6	6	—	6
Financial expenses	(3,382)	—	(3,382)	(4,047)	—	(4,047)
Net financing expense	(3,376)	—	(3,376)	(4,041)	—	(4,041)
<b>Profit before tax</b>	760	(1,639)	(879)	6,157	(1,670)	4,487
Taxation	787	—	787	—	—	—
<b>Profit after tax for the period</b>	1,547	(1,639)	(92)	6,157	(1,670)	4,487
Other comprehensive income	—	—	—	—	—	—
<b>Total comprehensive income for the period</b>	1,547	(1,639)	(92)	6,157	(1,670)	4,487

Transition adjustments above include the following:

- Write back of negative goodwill amortisation within administrative expenses (£1,639,000 for year ended 30 March 2013 and £1,670,000 for the 53 week period ended 31 March 2012)
- Presentational adjustment to recognise (loss)/profit on disposal of fixed assets within operating profit (year ended 30 March 2013: loss of £216,000, 53 week period ended 31 March 2012: profit of £9,636,000)

Reconciliation of equity at 29 March 2014:

	29 March 2014		
	UK GAAP £000	Transition Adjustments £000	IFRS £000
<b>Assets</b>			
Property, plant & equipment	23,292	—	23,292
Deferred tax assets	—	4,512	4,512
<b>Non-current assets</b>	23,292	4,512	27,804
Inventories	5,928	—	5,928
Trade and other receivables	17,604	(4,512)	13,092
Cash and cash equivalents	6,371	—	6,371
<b>Current assets</b>	29,903	(4,512)	25,391
<b>Total assets</b>	53,195	—	53,195
<b>Liabilities</b>			
Other interest bearing loans and borrowings	17,281	—	17,281
Trade and other payables	22,315	—	22,315
<b>Current liabilities</b>	39,596	—	39,596
Other interest bearing loans and borrowings	2,266	—	2,266
<b>Non-current liabilities</b>	2,266	—	2,266
<b>Total liabilities</b>	41,862	—	41,862
<b>Net assets</b>	11,333	—	11,333

Transition adjustments above include a presentational adjustment for deferred tax assets have been recognised within non-current rather than current assets (£4,512,000).

	UK GAAP £000	Transition Adjustments £000	IFRS £000
<b>Equity attributable to equity holders of the parent</b>			
Share capital	1	—	1
Share premium	1,793	—	1,793
Capital contribution reserve	28,022	—	28,022
Retained earnings	(18,483)	—	(18,483)
<b>Total equity</b>	11,333	—	11,333

Reconciliation of equity at 30 March 2013 and 31 March 2012:

	30 March 2013			31 March 2012		
	UK GAAP £000	Transition Adjustments £000	IFRS £000	UK GAAP £000	Transition Adjustments £000	IFRS £000
<b>Assets</b>						
Property, plant & equipment	21,354	—	21,354	16,980	—	16,980
Intangible assets	(277)	277	—	(1,916)	1,916	—
Deferred tax assets	—	3,269	3,269	—	2,482	2,482
<b>Non-current assets</b>	<b>21,077</b>	<b>3,546</b>	<b>24,623</b>	<b>15,064</b>	<b>4,398</b>	<b>19,462</b>
Inventories	5,162	—	5,162	5,063	—	5,063
Trade and other receivables	16,470	(3,269)	13,201	25,887	(2,482)	23,405
Cash and cash equivalents	8,042	—	8,042	7,528	—	7,528
<b>Current assets</b>	<b>29,674</b>	<b>(3,269)</b>	<b>26,405</b>	<b>38,478</b>	<b>(2,482)</b>	<b>35,996</b>
<b>Total assets</b>	<b>50,751</b>	<b>277</b>	<b>51,028</b>	<b>53,542</b>	<b>1,916</b>	<b>55,458</b>
<b>Liabilities</b>						
Other interest bearing loans and borrowings	8,513	—	8,513	13,828	—	13,828
Trade and other payables	21,934	—	21,934	23,870	—	23,870
<b>Current liabilities</b>	<b>30,447</b>	<b>—</b>	<b>30,447</b>	<b>37,698</b>	<b>—</b>	<b>37,698</b>
Other interest bearing loans and borrowings	8,343	—	8,343	33,452	—	33,452
<b>Non-current liabilities</b>	<b>8,343</b>	<b>—</b>	<b>8,343</b>	<b>33,452</b>	<b>—</b>	<b>33,452</b>
<b>Total liabilities</b>	<b>38,790</b>	<b>—</b>	<b>38,790</b>	<b>71,150</b>	<b>—</b>	<b>71,150</b>
<b>Net assets</b>	<b>11,961</b>	<b>277</b>	<b>12,238</b>	<b>(17,608)</b>	<b>1,916</b>	<b>(15,692)</b>

Transition adjustments above include the following:

- Write back of negative goodwill balance at the period end of £277,000 (31 March 2012: £1,916,000)
- a presentational adjustment whereby deferred tax assets have been recognised within non-current rather than current assets of £3,269,000 (31 March 2012: £2,482,000)

	30 March 2013			31 March 2012		
	UK GAAP £000	Transition Adjustments £000	IFRS £000	UK GAAP £000	Transition Adjustments £000	IFRS £000
<b>Equity attributable to equity holders of the parent</b>						
Share capital	1	—	1	1	—	1
Share premium	1,793	—	1,793	1,793	—	1,793
Capital contribution reserve	28,022	—	28,022	—	—	—
Retained earnings	(17,855)	277	(17,578)	(19,402)	1,916	(17,486)
<b>Total equity</b>	<b>11,961</b>	<b>277</b>	<b>12,238</b>	<b>(17,608)</b>	<b>1,916</b>	<b>(15,692)</b>

Transition adjustments above include recognition of the consolidated statement of comprehensive income affecting transition adjustments within retained earnings from the date of transition.

*Reconciliation of equity at 27 March 2011:*

	UK GAAP £000	Transition Adjustment £000	IFRS £000
<b>Assets</b>			
Property, plant & equipment	19,483	(511)	18,972
Intangible assets	(3,586)	3,586	—
Deferred tax assets	—	2,482	2,482
<b>Non-current assets</b>	<b>15,897</b>	<b>5,557</b>	<b>21,454</b>
Inventories	4,744	—	4,744
Trade and other receivables	17,104	(2,482)	14,622
Cash and cash equivalents	4,586	—	4,586
Assets classified as held for sale	—	511	511
<b>Current assets</b>	<b>26,434</b>	<b>(1,971)</b>	<b>24,463</b>
<b>Total assets</b>	<b>42,331</b>	<b>3,586</b>	<b>45,917</b>
<b>Liabilities</b>			
Other interest bearing loans and borrowings	47,223	—	47,223
Trade and other payables	18,873	—	18,873
<b>Current liabilities</b>	<b>66,096</b>	<b>—</b>	<b>66,096</b>
<b>Non-current liabilities</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total liabilities</b>	<b>66,096</b>	<b>—</b>	<b>66,096</b>
<b>Net assets</b>	<b>(23,765)</b>	<b>3,586</b>	<b>(20,179)</b>

Transition adjustments above include the following:

- Write back of negative goodwill at the period end of £3,586,000
- Reclassification of land from PP&E to assets classified as held for sale on the grounds that it was being actively marketed for sale at 27 March 2011; hence is required to be disclosed as such under IFRS 5

- A presentational adjustment for deferred tax assets of £2,482,000 which have been recognised within non-current rather than current assets.

*Reconciliation of equity at 27 March 2011:*

	<b>UK GAAP</b> <b>£000</b>	<b>Transition</b> <b>Adjustment</b> <b>£000</b>	<b>IFRS</b> <b>£000</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Equity attributable to equity holders of the parent</b>			
Share capital	1	—	1
Share premium	1,793	—	1,793
Retained earnings	(25,559)	3,586	(21,973)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total equity</b>	<u>(23,765)</u>	<u>3,586</u>	<u>(20,179)</u>

The transition adjustment above includes recognition of the consolidated statement of comprehensive income affecting transition adjustments within retained earnings from the date of transition.

## PART V

### PRO FORMA NET ASSET STATEMENT OF THE ENLARGED GROUP

The unaudited *pro forma* statement of net assets set out below has been prepared to illustrate the effect of the Transaction on the Company's net assets as if the Transaction had taken place on 28 June 2014. This unaudited *pro forma* financial information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and, therefore, does not represent the Enlarged Group's actual financial position or results.

The financial information on which the *pro forma* financial information is based has been prepared in accordance with IFRS and on the basis of the accounting policies of Finsbury Food.

	Finsbury Food Group Plc as at 28 June 2014 Note 1 £'000	Fennel Acquisition Limited as at 29 March 2014 Note 2 £'000	Fund raising and associated costs Note 3 £'000	Acquisition Note 4 £'000	Enlarged Group £'000
<b>Non-current assets</b>					
Intangibles	52,968	—	—	31,923	84,891
Property, plant and equipment	21,541	23,292	—	—	44,833
Other financial assets – investments	28	—	—	—	28
Deferred tax assets	1,350	4,512	—	—	5,862
	<u>75,887</u>	<u>27,804</u>	<u>—</u>	<u>31,923</u>	<u>135,614</u>
<b>Current assets</b>					
Deferred consideration receivable	2,895	—	—	—	2,895
Inventories	4,530	5,928	—	—	10,458
Trade and other receivables	24,832	13,092	—	—	37,924
Cash and cash equivalents	592	6,371	57,505	(63,876)	592
	<u>32,849</u>	<u>25,391</u>	<u>57,505</u>	<u>(63,876)</u>	<u>51,869</u>
<b>Total assets</b>	<b><u>108,736</u></b>	<b><u>53,195</u></b>	<b><u>57,505</u></b>	<b><u>(31,953)</u></b>	<b><u>187,483</u></b>
<b>Current liabilities</b>					
Other interest-bearing loans and borrowings	(5,718)	(17,281)	(2,440)	17,281	(8,158)
Trade and other payables	(30,736)	(22,315)	—	—	(53,051)
Provisions	(237)	—	—	—	(237)
Other financial liabilities – fair value of interest rate swaps / foreign exchange	(451)	—	—	—	(451)
Current tax liabilities	(28)	—	—	—	(28)
	<u>(37,170)</u>	<u>(39,596)</u>	<u>(2,440)</u>	<u>17,281</u>	<u>(61,925)</u>
<b>Non-current liabilities</b>					
Other interest-bearing loans and borrowings	(3,612)	(2,266)	(21,755)	2,266	(25,367)
Provisions and other liabilities	(199)	—	—	—	(199)
Deferred tax liabilities	(422)	—	—	—	(422)
Pension fund liability	(3,630)	—	—	—	(3,630)
	<u>(7,863)</u>	<u>(2,266)</u>	<u>(21,755)</u>	<u>2,266</u>	<u>(29,618)</u>
<b>Total liabilities</b>	<b><u>(45,033)</u></b>	<b><u>(41,862)</u></b>	<b><u>(24,195)</u></b>	<b><u>19,547</u></b>	<b><u>(91,543)</u></b>
<b>Net assets</b>	<b><u>63,703</u></b>	<b><u>11,333</u></b>	<b><u>33,310</u></b>	<b><u>(12,406)</u></b>	<b><u>95,940</u></b>

#### Notes to unaudited *pro forma* statement of net assets

- Figures shown as at 28 June 2014 of Finsbury Food Group Plc have been extracted, without material adjustment from the historical financial information presented in Part III of this document.

2. Figures shown as at 29 March 2014 of Fennel Acquisition Limited have been extracted, without material adjustment from the historical financial information presented in Part IV of this document.
3. Fund raising and associated costs reflect the following:
  - The receipt of £35.0 million from the issue of 59,322,034 Ordinary Shares as part of the Placing net of £1.7 million of associated costs; and
  - The receipt of £24.2 million from the New Debt Facilities.
4. The figures reflect Acquisition adjustments. The combination has been accounted for as an acquisition in accordance with IFRS3. The *pro forma* net assets statement does not give effect to fair value adjustments arising from the purchase price being greater than the book value of the net assets acquired. The *pro forma* purchase price premium has been attributed to goodwill, being the difference between the net consideration payable (£43.2 million – being the maximum consideration payable of £56.4 million less Fletchers’ net debt of £13.2 million) and less Fletchers net assets at 31 March 2014 (£11.3 million). No *pro forma* amortisation nor impairment charge has been applied to the resulting goodwill balance of £31.9 million in the period presented. The fair value adjustments, when finalised post-acquisition, may be material.

£63.9 million net cash outflow consists of:

  - £6.4 million of Fletchers’ cash to part repay Fletchers’ other interest-bearing loans and borrowings on completion;
  - The maximum cash consideration of £56.4 million; and
  - £1.1 million of transaction costs associated with the Acquisition excluding share placing costs.

Other interest bearing loans and borrowings reduce by £17.3 million in current liabilities and £2.3 million in non-current liabilities following repayment of Fletchers’ debt balances on Completion.
5. The *pro forma* statement of net assets does not constitute statutory accounts within the meaning of Part 15 of the Companies Act 2006.
6. No account has been taken of trading or other transactions of Finsbury Food since 28 June 2014 and of Fennel since 29 March 2014.

## PART VI

### ADDITIONAL INFORMATION

#### 1. RESPONSIBILITY STATEMENT

- 1.1 The Directors, whose names appear on page 8 of this document, and the Company, accept individual and collective responsibility for the information contained in this document including for the Company's compliance with the AIM Rules. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 1.2 In connection with this document and/or the Placing, no person is authorised to give any information or make any representations other than as contained in this document and, if given or made, such information or representation must not be relied upon as having been so authorised.

#### 2. THE COMPANY AND ITS SUBSIDIARIES

- 2.1 The Company was incorporated and registered in England and Wales on 9 March 1925 under the Companies Acts 1908 to 1917 as a limited company with registered number 204368 and with the name United Tin Areas of Nigeria Limited. On 13 October 1969, the name of the Company was changed to United Tin Areas Limited. On 9 December 1981, the Company was re-registered as a public limited company under the Companies Acts 1948 to 1980 and the name of the Company was changed to United Tin Areas Plc. The Company changed its name: on 5 August 1994 to Graduate Appointments Plc; on 30 November 1995 to Megalomedica Plc; and to Finsbury Food Group Plc on 30 August 2002.
- 2.2 The liability of the members of the Company is limited.
- 2.3 The Company's shares were admitted to trading on AIM in 2002 under Finsbury Food Group plc and were subsequently re-admitted to trading on AIM on 23 February 2007 following an acquisition and placing.
- 2.4 Immediately following completion of the Acquisition, the Company's principal activity will be that of a holding company whilst the principal activity of its new wholly owned subsidiary, Fennel Acquisition Limited, will be, through its subsidiaries, the manufacture and sale of retail and wholesale bakery products.
- 2.5 The principal activities of the significant trading subsidiaries of the Group are the manufacture of bread, fresh pastry goods and cakes. The significant trading subsidiaries of the Group are: Campbells Cake Company Limited, Lightbody of Hamilton Limited, Memory Lane Cakes Limited, Nicholas & Harris Limited and Lightbody-Stretz Limited. The remaining subsidiaries listed below are holding and/or dormant companies.
- 2.6 All subsidiaries listed below are 100 per cent. owned by the Group save for Lightbody-Stretz Limited, which is 50 per cent. owned by the Group. Lightbody-Stretz Limited has been consolidated into the Group's accounts on the basis that the Group controls a majority of voting rights in it pursuant to an agreement with Philippe Stretz who is the other shareholder in the company.

<b>Group company</b>	<b>Company number</b>	<b>Country of incorporation</b>
Anthony Alan Foods Limited	04166425	England and Wales
California Cake Company Limited	SC204757	Scotland
California Cake Company (Holdings) Limited	SC286674	Scotland
Campbells Cake Company Limited	SC149616	Scotland
Campbells Cake Company (Holdings) Limited	SC286675	Scotland
Goswell Enterprises Limited	06057227	England and Wales
Goswell Marketing Limited	06836928	England and Wales
Lightbody Group Limited	SC239942	Scotland
Lightbody of Hamilton Limited	SC064691	Scotland
Memory Lane Cakes Limited	03359828	England and Wales
Nicholas & Harris Limited	04636276	England and Wales
Lightbody-Stretz Limited	SC231183	Scotland

Upon completion of the Acquisition, the Company will become the ultimate parent company of the following entities:

<u>Group company</u>	<u>Company number</u>	<u>Country of incorporation</u>	<u>Principal activity</u>
Fennel Acquisition Limited	05998318	England and Wales	Holding company
Fletchers Bakeries Investment Limited	05998313	England and Wales	Holding company
Fletchers Bakeries Limited	00249790	England and Wales	Trading

- 2.7 The principal legislation under which the Company operates is the Act and the regulations made thereunder.
- 2.8 The Company's registered office is at Maes-y-Coed Road, Cardiff CF14 4XR and will remain so on Admission. The telephone number of the Company is 029 2035 7500 and will remain so on Admission.
- 2.9 The accounting reference date of the Company is 30 June and will remain so on Admission.

### 3. SHARE CAPITAL

- 3.1 The Ordinary Shares are in registered form and are capable of transfer in both certificated and uncertificated form. The register of members for the Company is maintained by the Company's registrars, Capita Asset Services of The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.
- 3.2 The Ordinary Shares are the Company's sole class of shares. Please refer to the summary of the Articles in paragraph 4 below for further information in relation to rights attaching to the Ordinary Shares.
- 3.3 In the period from 1 July 2011 to 28 June 2014 (being the period covered by the financial information set out in Part III of this document), the number of Ordinary Shares increased as follows:

<u>Ordinary Shares (fully paid)</u>	<u>2014 000's</u>	<u>2013 000's</u>	<u>2012 000's</u>
Ordinary Shares in issue on 1 July	64,155	53,502	52,788
Ordinary Shares issued during financial year	2,739	10,653	714
Ordinary Shares in issue on 30 June	66,894	64,155	53,502

- 3.4 On 8 July 2011, 476,190 Ordinary Shares were issued to Stephen Boyd and 95,238 Ordinary Shares were issued to Crawford Currie. The shares were issued at 21 pence per share pursuant to certain remuneration arrangements agreed between the Company and those individuals.
- 3.5 On 9 May 2012, 141,500 Ordinary Shares were issued at 14 pence per share following the exercise of options.
- 3.6 On 14 June 2012, 960 Ordinary Shares were issued following the exercise of options pursuant to the Sharesave Plan.
- 3.7 On 31 August 2012, 13,325 Ordinary Shares were issued following the exercise of options pursuant to the Sharesave Plan.
- 3.8 On 20 November 2012, 10,364,277 Ordinary Shares were issued at 38 pence per share pursuant to a placing of Ordinary Shares. The Ordinary Shares were placed at a price which represents a discount of 5 per cent. to the closing middle market price of 40 pence per share at which the existing Ordinary Shares were quoted on AIM on 13 November 2012.
- 3.9 On 22 November 2012, 56,600 Ordinary Shares were issued following the exercise of options.
- 3.10 On various dates in 2013, the Company issued 218,745 Ordinary Shares following the exercise of options by its employees pursuant to the Sharesave Plan.
- 3.11 On 16 July 2013, 361,804 Ordinary Shares were issued to John Duffy as part of a settlement relating to the cancellation of his unapproved options.
- 3.12 On 5 September 2013, 278,300 Ordinary Shares were issued following the exercise of options by certain employees under the Group's Long Term Incentive Plan 2006.

- 3.13 On 3 October 2013, 250,000 Ordinary Shares were issued following the exercise of options by an employee of the Company.
- 3.14 On 30 October 2013, 256,325 Ordinary Shares were issued following the exercise of options by certain employees of the Company.
- 3.15 On 5 November 2013, 228,025 Ordinary Shares were issued following the exercise of options by certain employees of the Company.
- 3.16 On various dates in 2014, the Company issued 351,729 and 167,152 Ordinary Shares following the exercise of options pursuant to the Group's Long Term Incentive Plan 2006 and Sharesave Plan respectively.
- 3.17 On 24 January 2014, 641,800 Ordinary Shares were issued following the exercise of options, pursuant to the Sharesave Plan and blocklisting facility.
- 3.18 On 3 March 2014, 52,848 Ordinary Shares were issued in relation to the exercise of options by an employee of the Company.
- 3.19 On 9 April 2014, 40,000 Ordinary Shares were issued in relation to the exercise of options by an employee of the Company.
- 3.20 On 2 June 2014, 111,000 Ordinary Shares were issued in relation to the exercise of options by an employee of the Company.
- 3.21 As at 9 October 2014 (being the latest practicable date prior to the publication of this document), the issued share capital of the Company was as follows:

<b>Class of shares</b>	<b>Number of issued shares</b>	<b>Nominal Value (£)</b>
Ordinary Shares	66,904,284	669,042.84 (fully paid)

- 3.22 The issued share capital of the Company immediately following Admission, assuming that all of the Placing Shares are issued and that none of the outstanding options are exercised, will be as follows:

<b>Issued</b>	<b>Number</b>	<b>Nominal value (£)</b>
Ordinary Shares	126,226,318	1,262,263

- 3.23 As at 9 October 2014 (being the latest practicable date prior to the publication of this document), there were outstanding options over a total of 7,054,926 Ordinary Shares representing approximately 5.6 per cent. of the Enlarged Share Capital.
- 3.24 As at 9 October 2014 (being the latest practicable date prior to the publication of this document), Directors held the following Options in respect of Ordinary Shares:

<b>Option holder</b>	<b>Number of options</b>	<b>Exercise price</b>	<b>Earliest exercise date</b>	<b>Expiry date</b>
Stephen Boyd	2,900,000	20.5p	08/07/2014	30/10/2016
John Duffy	2,500,000	20.5p	08/07/2014	30/10/2016

Details of the terms on which the options were issued can be found in paragraph 19 of this Part VI.

- 3.25 Save as disclosed below and in relation to the Ordinary Shares proposed to be issued pursuant to the Placing:
- 3.25.1 no share or loan capital of the Company or any of its subsidiaries has been issued or been agreed to be issued fully or partly paid, either for cash or for consideration other than cash and no issue is now proposed; and
- 3.25.2 neither the Company nor any of its subsidiaries has granted any options, warrants or convertible loan notes over its shares or loan capital which remains outstanding or has agreed, conditionally or unconditionally, to grant any such options, warrants or convertible loan notes.

- 3.26 The Placing Shares will be allotted fully paid in registered form and may be held in either certificated or in uncertificated form. Application will be made to the London Stock Exchange for the Existing Ordinary Shares and the Placing Shares to be admitted or re-admitted, as the case may be, to trading on AIM. All the Ordinary Shares (including the Placing Shares) may be transferred into the CREST system for which there will be no charge to stamp duty or SDRT on the transfer.
- 3.27 The Existing Ordinary Shares and the Placing Shares were created under and are subject to the provisions of the Act and are denominated in pound sterling.
- 3.28 The Placing Shares will, on issue, rank *pari passu* for all dividends and other distributions (if any) declared or made or paid in respect of Ordinary Shares after the date of issue and will otherwise rank *pari passu* in all respects with the Existing Ordinary Shares and no Shareholders enjoy different or enhanced voting rights, save that the Placing Shares will not be eligible for the final dividend proposed by the Directors to be paid on 10 December 2014.
- 3.29 The Notice of General Meeting contains resolutions (Resolutions 2 and 3) which will be proposed to grant the Directors authority to: (i) allot relevant securities pursuant to the Act up to an aggregate nominal value of £593,220 in connection with the Placing; (ii) allot relevant securities pursuant to the Act up to an aggregate nominal value of £416,546 for general purposes; (iii) allot the securities referred to under (i) above as if section 561 of the Act did not apply to any such allotment or sale; and (iv) allot up to an aggregate nominal value of £126,226 of the relevant securities referred to under (ii) above as if section 561 of the Act did not apply to such allotment or sale. This new authority, if passed, will replace the authority conferred on the Directors at the annual general meeting of the Company held in November 2013 and will expire on a date which is fifteen months from the date of such resolutions or, if earlier, the date of the next annual general meeting after the date of such resolutions. The Company may before the expiry of the authority make an offer or agreement which would or might require relevant securities to be allotted after such expiry.
- 3.30 There are no Ordinary Shares which are held by, or on behalf of, the Company and none of the Company's subsidiary undertakings holds any shares in the Company.
- 3.31 On completion of the Placing the existing issued share capital of the Company will be increased by 59,322,034 Ordinary Shares, resulting in an immediate dilution of holders of Existing Ordinary Shares who do not participate in the Placing of 47 per cent. in aggregate, assuming that no Ordinary Shares are issued in respect of the exercise of options between the date of this document and Admission.

#### **4. ARTICLES OF ASSOCIATION**

##### **4.1 The Memorandum of Association**

The principal provisions of the Company's Memorandum of Association were incorporated into the Articles by operation of law on 1 October 2009. Following the adoption of the Articles (which do not contain an express objects clause), the Company has unlimited capacity.

##### **4.2 The Articles of Association**

The Articles contain provisions to the following effect:

###### **4.2.1 *Maximum share capital***

The maximum amount of share capital of the Company that can be issued is £1,000,000 divided into 100,000,000 shares of 1 pence each. As explained in the letter from the Chairman set out in Part I of this document, pursuant to Resolution 4 set out in the Notice, the Directors are proposing that this limitation be removed.

###### **4.2.2 *Voting rights of members***

Subject to any rights and restrictions attached to any shares and to the provisions of the Articles, every member or proxy present shall have one vote for every share on a show of hands and on a poll.

In the case of joint holders, the person whose name stands first in the register of members and who votes in person or by proxy is entitled to vote to the exclusion of all other joint holders.

No holder of a share shall, unless the Board otherwise determines, be entitled to vote at a general meeting either personally or by proxy if any sum payable by him to the Company in respect of that share remains unpaid; and he or any other person who appears to be interested in the share may be restricted from voting if such person has been duly served pursuant to section 793 of the Act with a statutory notice (see paragraph 4.2.11 below).

A member in respect of whom an order has been made by any competent court or official on the ground that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote, whether on a show of hands or on a poll, by any person authorised to do so on his behalf as long as evidence satisfactory to the Board of that person's authority is provided in accordance with the Articles.

#### 4.2.3 *Dividends*

Subject to the Statutes, the Company may declare dividends by ordinary resolution, and interim dividends can be paid by the Board. No dividend declared in general meeting shall be payable in excess of the amount recommended by the Board.

Except in so far as the rights attaching to any share otherwise provide, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid. All dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

A dividend may, upon the recommendation of the Board and on being approved by ordinary resolution, be wholly or partly satisfied by the distribution of assets and, in particular, of paid up shares or debentures of any other company.

No dividend shall bear interest against the Company unless otherwise provided by the rights attached to the share. Any dividend unclaimed for a period of 12 years from the date of such dividend having been declared shall be forfeited and shall revert to the Company.

The Board may, if authorised by ordinary resolution, offer shareholders, in respect of any dividend, the right to elect to receive shares by way of scrip dividend instead of cash.

The Board may withhold payment of all or any part of any dividends or other monies payable in respect of any shares that represents at least 0.25 per cent. of the shares in issue if a person who has, or appears to the Company to have, an interest in those shares has failed to comply with a statutory notice duly served pursuant to section 793 of the Act (see paragraph 4.2.11 below).

#### 4.2.4 *Return of capital*

Under the Statutes, as there is nothing to the contrary in the Articles, on a voluntary winding-up of the Company, the liquidator may, with the sanction of a special resolution, divide among the members the whole or any part of the assets of the Company. For such purpose, the liquidator may set the value and may determine on the basis of that valuation and in accordance with the then existing rights of members, how the division is to be carried out between members or classes of members.

#### 4.2.5 *Redeemable shares*

Subject to the Statutes and to the rights attached to existing shares, shares may be issued which are to be redeemed, or which are liable to be redeemed, at the option of the Company or of the holder, on such terms and in such manner as may be provided for by the Articles.

#### 4.2.6 *Form of holding of shares*

Shares may be held in either certificated or, subject to the Articles, uncertificated form.

The Board may make suitable arrangements for shares which are participating securities to be held in uncertificated form. No provision of the Articles will apply to the extent that it is inconsistent with holding such shares in uncertificated form, the transfer of title to such uncertificated shares by means of a relevant system, and the CREST Regulations.

The transferor of a share is deemed to remain the holder until the transferee's name is entered in the register.

#### 4.2.7 *Transfer of shares*

Shares may be transferred, if in certificated form, by an instrument of transfer in writing in any usual form, or in such other form as the Board may approve or, if held in uncertificated form, in accordance with the CREST Regulations and the CREST rules or otherwise in such manner as the Board in its absolute discretion shall determine. Any instrument of transfer must be signed by or on behalf of the transferor and (in the case of a partly paid share) the transferee. The Board may refuse to register any transfer of a share:

- (a) if the share is not fully paid (except that, in the case of shares admitted to the Official List of the London Stock Exchange or traded on AIM, the Board's discretion to refuse the transfer may not be exercised so as to prevent dealings in shares of the relevant class from taking place on an open and proper basis);
- (b) if it is in certificated form, unless it is lodged, duly stamped (if required), at the registered office of the Company and accompanied by the certificate for the shares to which it relates and/or evidence as the Board may reasonably require to show the right of the transferor to make the transfer;
- (c) if the transfer is not in respect of one class of share only;
- (d) if the transfer is not in favour of four or fewer transferees;
- (e) in the case of shares held in certificated form, if the transfer is in favour of a minor, bankrupt or person of mental ill-health;
- (f) if it is held in uncertificated form, in any other circumstances permitted by the CREST Regulations and/or the CREST rules; or
- (g) where the Board is entitled to refuse to do so where a person has failed to comply with a statutory notice duly served pursuant to section 793 of the Act (see paragraph 4.2.11 below).

#### 4.2.8 *Rights attaching to shares and pre-emption rights*

Subject to the Statutes and any resolution passed by the Company, shares may be issued with such rights and restrictions as the Company may by ordinary resolution determine, or (if there is no determination) as the Board may determine. Subject to the Statutes, the Articles and any resolution passed by the Company, unissued shares are at the disposal of the Board.

Under the Statutes, if the Company issues shares or certain other securities, current shareholders will generally have pre-emption rights to those shares or securities on a pro-rata basis. The shareholders may, by special resolution, grant authority to the Board to allot shares as if the pre-emption rights did not apply. This authority may be either specific or general and may not exceed a period of five years.

#### 4.2.9 *Variation of rights*

Subject to the Statutes, the rights attached to any class of shares may be altered or abrogated with the written consent of the holders of not less than three fourths in nominal value of the issued shares of that class (excluding any shares of that class held as treasury shares) or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of that class.

#### 4.2.10 *Lien*

The Company has a lien on every partly-paid up share for all monies called or payable in respect of that share. The Company may sell, in such manner as the Board determines, any shares on which the Company has a lien if a sum in respect of which the lien exists is presently payable and is not paid within 14 clear days after a notice has been given to the holder of the share or the person entitled by transmission to his share, demanding payment and stating that if the notice is not complied with the shares may be sold.

#### 4.2.11 *Disclosure of interests in shares and restrictions for failure to provide information*

If a holder of shares in the Company or person appearing to have an interest in the issued share capital of the Company has failed to give the Company within 14 days information required by a statutory notice requiring that information, the Board may, at its discretion, impose restrictions upon the relevant shares by service of a further “restriction notice.”

In the case of shareholders representing at least 0.25 per cent. of a class of shares, the restrictions available are: the suspension of voting or other rights in relation to meetings of the Company in respect of the relevant shares; the withholding of payment of dividends on; and the Board’s right to refuse to register a transfer of the relevant shares (save in the case of “arm’s length” transfers referred to below).

The restrictions shall cease to apply seven days after due compliance, subject to the satisfaction of the Board, with the statutory notice. The restriction will cease automatically upon a sale of the entire interest in the shares pursuant to an “arm’s length” sale. An “arm’s length” sale is a sale of the entire interest in the shares the subject of the sale on a recognised investment exchange or an investment exchange on which shares in the Company of that description are normally traded, or a sale of such an entire interest otherwise than on such an investment exchange to a person who had no interest in those shares at the time the relevant statutory notice was served and who is not an associate of a person who had such an interest and who is not acting in concert with a person who had such an interest.

The Disclosure and Transparency Rules require shareholders (subject to certain exceptions) to notify the Company if the voting rights directly or indirectly held (within the meaning of those rules) by such shareholder reaches, exceeds or falls below three per cent. and each one per cent. threshold above that.

#### 4.2.12 *General meetings*

The Act requires annual general meetings to be held on a regular basis in addition to any other general meetings. The Board may call other general meetings whenever it thinks fit. The Board must also convene a meeting upon the valid request of members holding not less than five per cent. of the Company’s paid up capital carrying voting rights at general meetings. If the Board fails to give notice of such meeting to members when required to do so, the members that requested the general meeting, or any of them representing more than one half of the total voting rights of all members that requested the meeting, may themselves convene a meeting.

An annual general meeting shall be convened by at least 21 clear days’ notice and (subject to the Statutes) all other general meetings shall be convened by at least 14 clear days’ notice. Every notice calling a general meeting shall specify the place, the day and the time of the meeting and the general nature of the business to be transacted.

Two members present in person or by proxy and entitled to vote shall be a quorum for all purposes. If a quorum is not present within 15 minutes of the commencement time of the meeting (or such longer time not exceeding one hour as the chairman of the meeting may decide to wait), the meeting, shall be adjourned to such time (not being less than 10 nor more than 28 days later) and place as the chairman of the meeting shall decide and at such adjourned meeting one member present in person or by proxy (whatever the number of shares held by him) and entitled to vote shall be a quorum.

Members may attend and vote in person or by duly appointed proxy. A member may appoint more than one proxy in relation to a general meeting, provided that such proxy is appointed to exercise the rights attached to a different share or shares held by the member. The Articles contain provisions for the appointment of proxies, including time limits for making such appointments ahead of the meeting and provisions for appointment by means of electronic communication.

A simple majority of members entitled to vote and who are present in person or by duly appointed proxy may pass an ordinary resolution. To pass a special resolution, a majority of not less than three fourths of the members entitled to vote and who are present in person or by duly appointed proxy at the meeting is required.

The Board may direct that persons entitled to attend any general meeting should submit to searches or other security arrangements or restrictions, and may refuse entry to a general meeting to any person who fails to submit to such searches or otherwise to comply with such security arrangements or restrictions.

#### 4.2.13 *Notices to overseas shareholders*

Shareholders with registered addresses outside the United Kingdom are not entitled to receive notices from the Company unless they have given the Company an address within the United Kingdom at which notices may be served.

#### 4.2.14 *The Board*

Subject to the Statutes and the Articles, the business of the Company is managed by the Board, which may exercise all the powers of the Company, subject to any directions given by the Company in general meeting by special resolution. No alteration of the Articles, and no such directions by special resolution, shall invalidate any prior act of the Board which would have been valid if that alteration had not been made or that resolution had not been passed.

The Board may delegate any of its powers, authorities and discretions (with power to sub-delegate) to any committee consisting of such person or persons as it thinks fit (whether a member or members of its body or not), provided that the majority of the members of the committee are directors. Subject to any restriction on sub-delegation imposed by the Board, any committee so formed may exercise its power to sub-delegate by sub-delegating to any person or persons (whether or not a member or members of the Board or of the committee).

#### 4.2.15 *Directors*

##### *(a) Appointment and retirement of directors*

The directors (excluding alternate directors) shall not, unless otherwise determined by ordinary resolution, be fewer than two but shall not be subject to any maximum number. A director does not need to hold shares in the Company.

Directors may be appointed by the Company by ordinary resolution or by the Board. A director appointed by the Board holds office only until the end of the annual general meeting of the Company following his appointment unless he is reappointed during the meeting.

At every annual general meeting one-third of the directors (or, if their number is not three or a multiple of three, the number nearest to but not exceeding one-third) must retire from office by rotation. The Company may fill any vacated office by re-electing the retiring director or some other person eligible for appointment.

No director may vote or be counted in the quorum on any resolution of the Board concerning his own appointment (including the settlement or variation of the terms, or the termination, of the appointment) as the holder of any office or place of profit within the Company or any other company in which the Company is interested.

##### *(b) Remuneration of directors*

The directors shall be entitled to receive fees for their services at a rate which shall not exceed an aggregate sum of £100,000 per annum or such higher amount as the Company, by ordinary resolution, may determine from time to time. The Directors intend to propose an ordinary resolution to the Shareholders at the next annual general meeting of the Company to increase the limit on Directors' fees to an aggregate sum of £350,000 per annum.

Any director who holds any executive office, or who serves on any committee or devotes special attention to the business of the Company or goes or resides abroad for any purposes of the Company, shall (unless the Company by ordinary resolution determines otherwise) receive such remuneration or extra remuneration by way of salary, commission, participation in profits or otherwise as the Board, or any committee authorised by the Board, may determine.

The Company may pay the directors' expenses properly incurred by them in connection with the business of the Company, including their expenses of travelling to and from meetings of the directors, committee meetings or general meetings.

(c) *Directors' interests*

Subject to the Statutes, provided the director has disclosed to the Board the nature and extent of any material interest of his, a director notwithstanding his office:

- (i) may hold any other office or place of profit with the Company (except that of auditor) in conjunction with the office of director and may act by himself or through his firm in a professional capacity for the Company;
- (ii) may be a party to, or otherwise interested in, any contract with the Company or in which the Company is otherwise interested;
- (iii) may be a director or other officer of, or employed by, or a party to any contract with, or otherwise interested in, any body corporate promoted by the Company or in which the Company is otherwise interested or in relation to which the Company has power of appointment; and
- (iv) shall not, by reason of his office, be accountable to the Company for any remuneration or benefit which he derives from any such office or employment or from any such contract or from any interest in such body corporate and no such contract shall be liable to be avoided on the ground of any interest or benefit.

(d) *Restrictions on directors voting*

A director is not permitted to vote or be counted in the quorum on any resolution of the Board or of a committee of the Board concerning any matter in which he has, to his knowledge, directly or indirectly, an interest or duty that is material. This prohibition does not apply to any of the following matters:

- (i) the giving to him of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of, or for the benefit of, the Company or any of its subsidiary undertakings;
- (ii) the giving by the Company of any guarantee, security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which the director himself has assumed responsibility in whole or in part (whether alone or jointly with others) under a guarantee or indemnity or by the giving of security;
- (iii) the director subscribing or agreeing to subscribe for, or purchasing or agreeing to purchase, any shares, debentures or other securities of the Company or any of its subsidiary undertakings;
- (iv) any contract concerning any company (not being a company in which the director owns one per cent. or more) in which he is interested, directly or indirectly, and whether as an officer, shareholder, creditor or otherwise;
- (v) any arrangement for the benefit of employees of the Company or any of its subsidiary undertakings under which he benefits in a similar manner as the employees; or
- (vi) any contract concerning any insurance which the Company is empowered to purchase or maintain for, or for the benefit of, any directors or for persons who include directors.

(e) *Conflicts of interest requiring Board authorisation*

The Board may, provided the quorum and voting requirements are satisfied, authorise any matter that would otherwise involve a director breaching his duty under the Act to avoid conflicts of interest. Any director may propose that the director concerned be authorised in relation to any matter which is the subject of such a conflict and such proposal shall be resolved upon by the Board in the same manner as any other matter, except that the director who is the subject of the conflict (or any other director with a similar interest) shall not count towards the quorum or vote on the resolution authorising the conflict.

Any such authority may provide:

- (i) for the exclusion of such a director from the receipt of information or participation in decision-making or discussion (whether at Board meetings or otherwise) related to the conflict;
- (ii) that, where such a director obtains information that is confidential to a third party, the director will not be obliged to disclose that information to the Company, or to use the information in relation to the Company's affairs, where to do so would amount to a breach of that confidence;
- (iii) that such a director shall not be accountable to the Company for any benefit that he receives as a result of the conflict; and
- (iv) that the Board may withdraw the authority at any time.

Where the Board authorises a conflict, the relevant director will be obliged to conduct himself in accordance with any terms imposed by the Board from time to time in relation to the conflict, but will not be in breach of his duties as a director by reason of his doing so.

#### **4.2.16 *Borrowing powers***

The Board may exercise all the powers of the Company to borrow money, to mortgage or charge all or part of its undertaking, property and assets (present and future) and uncalled capital and, subject to the Statutes, to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

The Board shall restrict the borrowing of the Company and exercise all its voting and other rights and powers of control exercisable by the Company in relation to the Group to ensure that the aggregate borrowings of the Group (excluding borrowings owed by one Group member to another) does not, without the previous sanction of an ordinary resolution, exceed an amount equal to four times the Adjusted Capital and Reserves (as defined in the Articles).

#### **4.2.17 *Indemnity of officers***

Subject to the Statutes, the Company may indemnify any director or other officer against any liability. Subject to those provisions, but without prejudice to any indemnity to which the person concerned may otherwise be entitled, every director or other officer of the Company and the auditors shall be indemnified out of the assets of the Company against any liability incurred by him as a director, other officer of the Company or as auditor in defending any proceedings (whether civil or criminal) in which judgment is given in his favour or he is acquitted or in connection with any application under the Statutes in which relief is granted to him by the court.

#### **4.2.18 *Power to insure***

Subject to the Statutes, the Board may purchase and maintain insurance at the expense of the Company for the benefit of any person who is or was at any time a director or other officer or employee of the Company or of any other company which is a subsidiary or subsidiary undertaking of the Company or in which the Company has an interest.

#### **4.2.19 *Untraceable shareholders***

The Company shall be entitled to sell, at the best price reasonably obtainable, the shares of a member or the shares to which a person is entitled by transmission if:

- (a) during a period of 12 years prior to the date of advertising its intention to sell such shares at least three cash dividends in respect of such shares have become payable but no dividend has been claimed;
- (b) after the expiry of that period, the Company has published a notice stating it intends to sell the shares in a leading national daily newspaper in the United Kingdom and in a newspaper circulating in the area of the last known address of the member or the person entitled by transmission;
- (c) during that period or three months following the publication of the advertisements and prior to the exercise of the power of sale, the Company has not heard from the member or the person entitled to the shares by transmission; and

- (d) if any part of the share capital of the Company is admitted to the Official List of the London Stock Exchange, the Company has given notice in writing to the Listing Department of the London Stock Exchange of its intention to sell such share.

**4.2.20 Mandatory takeover bids, squeeze-out and sell-out rules**

Except as provided by the Act and the Takeover Code, there are no rules or provisions relating to mandatory bids and/or squeeze-out and sell-out rules in relation to the shares.

**4.2.21 Reduction of capital**

Subject to the Statutes, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account or other undistributable reserve in any manner.

**5. DIRECTORS' AND OTHER INTERESTS**

- 5.1 The interests of each of the Directors in the Ordinary Shares (all of which are beneficial) which have been or will be required to be notified to the Company pursuant to section 5 of the DTRs or which will be required to be maintained under the provisions of section 808 of the Act, or which are interests of a person connected with any of the Directors (within the meaning of section 252 of the Act), which interests would be required to be disclosed pursuant to the DTRs, and the existence of which is known to the Directors or could with reasonable diligence be ascertained by them as at 9 October 2014 (being the latest practicable date prior to the publication of this document) are as set out below:

	<b>Number of Existing Ordinary Shares</b>	<b>% of the Existing Ordinary Shares</b>	<b>Number of Ordinary Shares on Admission</b>	<b>% of the Enlarged Share Capital on Admission</b>
John Duffy	1,855,163	2.8	1,855,163	1.5
Stephen Boyd	555,137	0.8	555,137	0.4
Paul Monk	291,547	0.4	291,547	0.2
Edward Beale	40,000	0.1	40,000	0.1
Peter Baker	nil	nil	nil	nil
Raymond Duignan	nil	nil	nil	nil
<b>Total</b>	<b>2,741,847</b>	<b>4.1</b>	<b>2,741,847</b>	<b>2.2</b>

- 5.2 Save as disclosed in this document, none of the Directors has or will have any interest in the share capital or loan capital of the Company following Admission nor does any person connected with the Directors (within the meaning of section 252 of the Act) have any such interest whether beneficial or non-beneficial.
- 5.3 None of the Directors is or has been interested in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company and which was effected by the Company and remains in any respect outstanding or unperformed.
- 5.4 There are no outstanding loans made or guarantees granted or provided by the Company to or for the benefit of any Director.
- 5.5 There is no Director nor member of a Director's family (as defined in the AIM Rules) who has a related financial product (as defined in the AIM Rules) referenced to the Ordinary Shares.

## 6. SUBSTANTIAL SHAREHOLDERS

6.1 As at 9 October 2014 (being the latest practicable date prior to the publication of this document), save as set out below, the Company was not aware of any person, who, directly or indirectly, had an interest representing three per cent. or more of the issued ordinary share capital of the Company (being the threshold at or above which, in accordance with the provisions of section 5 of the DTRs, any interest must be disclosed by the Company).

	<b>Number of Existing Ordinary Shares</b>	<b>% of the Existing Ordinary Shares</b>	<b>Number of Ordinary Shares on Admission</b>	<b>% of the Enlarged Share Capital on Admission</b>
Ruffer LLP	11,226,189	16.8	20,938,389	16.6
London Finance & Investment Group Plc	9,000,000	13.4	10,000,000	7.9
Martin Lightbody	7,200,000	10.8	7,200,000	5.7
Hargreave Hale Limited	5,476,385	8.2	12,976,385	10.3
Barclays Wealth	3,172,356	4.7	3,172,356	2.5
Miton Group Plc	2,121,070	3.2	5,021,070	4.0
<b>Total</b>	<b>38,196,000</b>	<b>57.1</b>	<b>59,368,200</b>	<b>47.0</b>

6.2 The Directors are not aware of any person who directly, or indirectly, jointly or severally, exercises or could exercise control over the Company.

6.3 The Company's shareholders detailed in paragraphs 5.1 and 6.1 of this Part VI do not have voting rights preferential to other holders of Ordinary Shares.

6.4 The Directors are not aware of any arrangements in place or under negotiation which may, at a subsequent date, result in a change of control of the Company.

## 7. ADDITIONAL INFORMATION ON THE DIRECTORS

7.1 Other than directorships of the Company, the Directors have held the following directorships or been partners in the following partnerships within the five years prior to the date of this document:

<b>Name</b>	<b>Current Directorships and Partnerships</b>	<b>Past Directorships and Partnerships</b>
Peter Baker	Blounce Limited Crosta & Mollica Limited European Oat Millers Limited Old Dairy Brewery Limited Staffordshire Street Projects Limited	Maple Leaf Foods UK Bakery Limited
Edward Beale	Boro Wood Limited City Group Asset Management Limited City Group Custodians Limited City Group Nominees Limited City Group Plc City Group Registrars Limited Global Coffee Exports (UK) Limited Halogen Holdings Plc Hartim Limited Heartstone Inns Limited Heartstone Inns 1 Limited High Altitude Coffee Company (UK) Limited Housestaple Limited Lonfin Investments Limited	Conafex Holdings (UK) Limited

Name	Current Directorships and Partnerships	Past Directorships and Partnerships
	Marshalls Group Limited (South Africa) Marshalls Internal Limited (South Africa) Marshall Monteagle Plc (Jersey) Merchant & Industrial Properties Limited Monteagle Consumer Group (UK) Limited Monteagle International (UK) Limited Monteagle Merchant Group Southern Holdings Limited (South Africa) Monteagle Merchant Group Southern Holdings 2 Limited (South Africa) Monteagle Properties (UK) Limited Monteagle Property Holdings Limited (South Africa) Registered Offices Limited Shanghai Global Export Corporation (UK) Limited Swallowfield Plc Western Selection Plc	
Stephen Boyd	Anthony Alan Foods Limited California Cake Company (Holdings) Limited California Cake Company Limited Campbells Cake Company (Holdings) Limited Campbells Cake Company Limited Goswell Enterprises Limited Goswell Marketing Limited In Focus Public Networks Limited Lightbody Celebration Cakes Limited Lightbody Group Limited Lightbody Holdings Limited Lightbody of Hamilton Limited Lightbody-Stretz Limited Memory Lane Cakes Limited Nicholas & Harris Limited Storesurvey Limited	Food Investors LLP Livwell Limited United Bakeries (Bathgate) Limited United Bakeries (Holdings) Limited United Bakeries Limited United Central Bakeries Limited
John Duffy	Anthony Alan Foods Limited California Cake Company (Holdings) Limited California Cake Company Limited Campbells Cake Company (Holdings) Limited Campbells Cake Company	Food Investors LLP Livwell Limited Natural Neutraceuticals Limited United Bakeries (Bathgate) Limited United Bakeries (Holdings) Limited United Bakeries Limited

Name	Current Directorships and Partnerships	Past Directorships and Partnerships
	Limited Goswell Enterprises Limited Goswell Marketing Limited In Focus Public Networks Limited Lightbody Celebration Cakes Limited Lightbody Group Limited Lightbody Holdings Limited Lightbody of Hamilton Limited Lightbody-Stretz Limited Memory Lane Cakes Limited Nicholas & Harris Limited Storesurvey Limited	United Central Bakeries Limited
Raymond Duignan	R P Duignan & CIE LLP	Stamford Partners LLP Stamford Partners Strategy Consultants Limited Stamford (Services) Partners Limited Underhill Partners Services LLP
Paul Monk	Crantock Bakery Limited In Focus Public Networks Limited Inventabrand Consulting Limited IVB Consulting LLP Paul Monk Limited Quorn Foods Limited The Monkey Business Foundation Limited	ABC Media Group Limited Burton's Holdings Limited Food Investors LLP Inventabrand Limited Retail Marketing International Limited

7.2 Save as disclosed below, none of the Directors has:

7.2.1 any unspent convictions in relation to indictable offences;

7.2.2 had any bankruptcy order made against him or entered into any voluntary arrangement;

7.2.3 been a director of a company which has been placed in receivership, compulsory liquidation, administration, been subject to a voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors, whilst he was a director of that company or within the 12 months after he had ceased to be a director of that company;

7.2.4 been a partner in any partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement, whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;

7.2.5 been the owner of any asset which has been placed in receivership or a partner in any partnership which has been placed in receivership whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;

7.2.6 been publicly criticised by any statutory or regulatory authority (including recognised professional bodies); or

7.2.7 been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of a company.

John Duffy was a director of Natural Neutraceuticals Limited until his resignation on 17 October 2013. A winding up order was made against the company on 1 May 2014 and the company was, as at 6 October 2014, in the process of being wound up. This was a start-up

company offering specialist internet-based full food diets which entered liquidation following a downturn in the diet market and its own unsuccessful rebranding exercise and marketing investment.

- 7.3 No Director has or has had any interest in any transaction which is or was significant in relation to the business of the Company and which was effected during the current or immediately preceding financial period or which was effected during an earlier financial period and remains outstanding or unperformed.

## 8. DIRECTORS' APPOINTMENTS AND REMUNERATION

- 8.1 The date of appointment of each Director (notwithstanding that they may have been directors of other Group companies before such date) is as follows:

Director	Date of appointment
Peter Baker	1 July 2014
Edward Beale	16 August 2002
Stephen Boyd	20 January 2010
John Duffy	30 September 2009
Raymond Duignan	15 July 2013
Paul Monk	9 December 2002

- 8.2 The following service agreements and letters of appointment have been entered into between the Directors and the Company:

### 8.2.1 *Service agreement of John Duffy*

On 30 September 2009, the Company entered into a service agreement with John Duffy. Mr Duffy is employed to act as Chief Executive Officer on a full time basis for an indefinite term. Mr Duffy is entitled to a basic salary and pension contribution of £327,493 per annum. In addition, Mr Duffy is entitled to membership of a private healthcare scheme, pension scheme contributions, an annual company car allowance of £10,000 and the reimbursement by the Company of all reasonable expenses incurred in the course of his employment.

Either party may terminate Mr Duffy's employment by giving 12 months' written notice. The Company may elect to pay Mr Duffy in lieu of notice. The Company may terminate Mr Duffy's contract with immediate effect in certain circumstances, including if Mr Duffy is convicted of a criminal offence, becomes bankrupt or is disqualified as a director, seriously or persistently breaches the terms of his employment, or becomes incapable by reason of mental disorder to discharge his duties, or resigns as a Director without the Board's consent.

Mr Duffy has also given certain non-compete and non-solicitation covenants covering 12 months following termination of his employment. In addition, Mr Duffy has given certain customary covenants in respect of confidentiality and ownership of intellectual property.

### 8.2.2 *Service agreement of Stephen Boyd*

On 11 January 2010, the Company entered into a service agreement with Stephen Boyd. Mr Boyd is employed to act as Group Finance Director on a full time basis for an indefinite term. Mr Boyd is entitled to a basic salary and pension contribution of £207,570 per annum. In addition, Mr Boyd is entitled to membership of a private healthcare scheme, pension scheme contributions, an annual company car allowance of £10,000 and the reimbursement by the Company of all reasonable expenses incurred in the course of his employment.

Either party may terminate Mr Boyd's employment by giving 12 months' written notice. The Company may elect to pay Mr Boyd a sum equivalent to the salary and benefits due to him in lieu of notice. The Company may terminate Mr Boyd's contract with immediate effect in certain circumstances, including if Mr Boyd is convicted of a criminal offence, becomes bankrupt or is disqualified as a director, seriously or persistently breaches the terms of his employment, or becomes incapable by reason of mental disorder to discharge his duties, or resigns as a Director without the Board's consent.

Mr Boyd has also given certain non-compete and non-solicitation covenants covering 12 months following termination of his employment. In addition, Mr Boyd has given certain customary covenants in respect of confidentiality and ownership of intellectual property.

#### 8.2.3 *Letter of appointment of Peter Baker*

On 24 April 2014, the Company appointed Peter Baker to act as an independent non-executive Director and chairman of the Company with effect from 1 July 2014. Mr Baker is entitled to a fee of £75,000 per annum, which is paid in respect of all duties, including service on any Board committee, and to the reimbursement by the Company of all reasonable expenses incurred in the course of his duties. The appointment is for an initial term of three years, which may be terminated by either party by giving three months' written notice. Mr Baker's continuing appointment is subject to his re-election by shareholders, as may be required under the Articles from time to time. The Company may terminate Mr Baker's appointment with immediate effect in certain circumstances, including if Mr Baker is convicted of a criminal offence, becomes bankrupt or is disqualified as a director, or seriously or persistently breaches the terms of his appointment. Mr Baker will be subject to a non-compete covenant for a period of six months following the termination of his appointment.

#### 8.2.4 *Letter of appointment of Edward Beale*

On 18 July 2002, the Company appointed Edward Beale to act as a non-executive Director with effect from 16 August 2002. Mr Beale is entitled to a fee of £45,000 per annum. Mr Beale's continuing appointment is subject to his re-election by shareholders, as may be required under the Articles from time to time.

#### 8.2.5 *Letter of appointment of Raymond Duignan*

On 2 July 2013, the Company appointed Raymond Duignan as an independent non-executive Director of the Company and Chairman of the Audit Committee and the Remuneration Committee with effect from 15 July 2013. Mr Duignan is entitled to a fee of £50,000 per annum, which is paid in respect of all duties, including service on the committees, and to the reimbursement by the Company of all reasonable expenses incurred in the course of his duties. Mr Duignan is also entitled to ad hoc payments in relation to specific projects, with the level of remuneration to be paid by the Company in respect of these projects to be determined by the Company's chairman. The appointment is for an indefinite period, which may be terminated by either party by giving three months' written notice. Mr Duignan's continuing appointment during this period is subject to his re-election by the shareholders, as may be required under the Articles from time to time.

#### 8.2.6 *Letter of appointment of Paul Monk*

On 25 October 2002, the Company appointed Paul Monk as a non-executive Director of the Company with effect from 9 December 2002. Mr Monk is entitled to a total fee of £70,000 per annum (consisting of a £40,000 non-executive director fee and a £30,000 consultancy fee). No specific provision is included in the letter of appointment in relation to the length of the appointment or the termination of the appointment by notice. In the absence of express provision, the duration of the appointment, including its termination, is subject to the Articles and his re-election by shareholders from time to time.

## 9. EMPLOYEES

The average number of persons employed by the Group, including Directors but excluding agency staff, during each of the years in the period covered by the financial information was as follows:

<b>Employee category</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Production	2,000	2,099	2,189
Sales and distribution	146	159	173
Administration, technical, new product development	143	156	161
<b>Total</b>	<b>2,289</b>	<b>2,414</b>	<b>2,523</b>

The Group also employed approximately 290 temporary employees in the financial year ended 28 June 2014.

As at the date of this document, the Group has an estimated 2,174 employees. On Admission, the Enlarged Group will employ approximately 2,885 staff in the UK and 15 staff abroad.

## 10. PRINCIPAL ESTABLISHMENTS

- 10.1 The Company's head office, principal place of business and principal establishment is at Maes-y-Coed Road, Cardiff CF14 4XR.
- 10.2 The registered offices and principal establishments of the material subsidiaries within the Group are stated below:

<u>Company</u>	<u>Registered address and principal establishment</u>
Anthony Alan Food Limited	6 Middle Street, London EC1A 7JA
California Cake Company Limited	73 Bothwell Road, Hamilton ML3 0DW
California Cake Company (Holdings) Limited	73 Bothwell Road, Hamilton ML3 0DW
Campbells Cake Company Limited	73 Bothwell Road, Hamilton ML3 0DW
Campbells Cake Company (Holdings) Limited	73 Bothwell Road, Hamilton ML3 0DW
Goswell Enterprises Limited	6 Middle Street, London EC1A 7JA
Goswell Marketing Limited	6 Middle Street, London EC1A 7JA
Lightbody Group Limited	73 Bothwell Road, Hamilton ML3 0DW
Lightbody of Hamilton Limited	73 Bothwell Road, Hamilton ML3 0DW
Memory Lane Cakes Limited	6 Middle Street, London EC1A 7JA
Nicholas & Harris Limited	6 Middle Street, London EC1A 7JA
Lightbody-Stretz Limited	73 Bothwell Road, Hamilton ML3 0DW

- 10.3 The registered office and principal establishment of Fennel Acquisition Limited is at Wadsley Bridge, Claywheels Lane, Sheffield S6 1LY.

## 11. MATERIAL CONTRACTS

- 11.1 The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company either (i) within the two years immediately preceding the date of this document and are, or may be material; or (ii) contain any provision under which the Company has any obligation or entitlement which is material to the Company as at the date of this document:

### 11.1.1 *Acquisition Agreement – October 2014*

On 9 October 2014, the Company entered into the Acquisition Agreement with Eliot Luxco and certain other individual vendors (together, the “**Vendors**”) to acquire from the Vendors the entire issued share capital of Fennel. Fennel is the holding company of the Fletchers Group. The Company has agreed to pay approximately £56.0 million in cash on Completion on the basis of a “locked-box” valuation of the Fletchers Group. That amount includes an amount agreed to be paid by the Company in respect of the repayment at Completion of all outstanding debt owed by the Fletchers Group to Eliot Luxco and to ABN AMRO Commercial Finance plc.

Completion of the Acquisition Agreement is conditional upon (i) the passing of the Resolutions; (ii) the Placing Agreement having become unconditional in all respects (save for any condition relating to the Acquisition Agreement having become unconditional); and (iii) the agreement in respect of the New Debt Facilities having become unconditional (save for any condition relating to the Acquisition Agreement having become unconditional). The Vendors have given certain customary undertakings in favour of the Company in relation to the operation of the business of the Fletchers Group in the period between the date of the Acquisition Agreement and Completion

Each of the Vendors has given customary warranties in relation to title to their respective Fennel shares, and their capacity and authority to enter into the Acquisition Agreement. In addition, each of the Vendors (other than Eliot Luxco) has given, *inter alia*, customary undertakings for a period of one year (in respect of certain of the Vendors) and two years (in respect of the other Vendors) from Completion not to: (i) be employed or engaged in certain businesses which compete with the business of the Fletchers Group in the UK; (ii) solicit, canvass or approach customers of the Fletchers Group; and (iii) offer employment to employees of the Fletchers Group holding senior executive or managerial

posts (subject to certain customary exceptions). In addition, the Vendors (other than Eliot Luxco) have also agreed not to use certain trade names used by the Fletchers Group at any time after Completion.

#### 11.1.2 *Warranty Deed – October 2014*

On 9 October 2014, the Company entered into a warranty deed (the “**Warranty Deed**”) with each of the Vendors under the Acquisition Agreement, other than Eliot Luxco (the “**Warrantors**”). Pursuant to the Warranty Deed, the Warrantors have agreed to provide certain customary warranties (“**Warranties**”) in respect of the Fletchers Group’s business, which include, amongst other: (i) warranties with regards to information about members of the Fletchers Group; (ii) the solvency of the Fletchers Group; (iii) accuracy of certain financial information; (iv) compliance by the Fletchers Group with applicable laws (including food safety regulations); (v) litigation; (vi) assets, stock and properties; (vii) employee-related matters and pensions; (viii) taxation; and (ix) material contracts and trading of the Fletchers Group. The Warranties are subject to limitations and exclusions (including, among others, financial caps and survival periods) that are customary in the context of a transaction in the nature of the Acquisition.

The Company has entered into a warranty and indemnity insurance policy to provide financial recourse over and above the overall cap on Warrantor liability in the event of a claim by the Company for breach of warranty under the Warranty Deed.

#### 11.1.3 *Placing Agreement – October 2014*

The Company and Cenkos entered into the Placing Agreement on 9 October 2014 under which the Company appointed Cenkos as its agent for the purpose of carrying out the Placing and Cenkos agreed to use its reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price.

The obligations of Cenkos under the Placing Agreement and completion of the Placing are subject to the agreement becoming unconditional and not being terminated in accordance with its terms prior to Admission. Such conditions include, among others, Admission occurring by not later than 8.00 a.m. on 30 October 2014 or such later date as Cenkos may agree with the Company (being not later than 31 October 2014).

Under the terms of the Placing Agreement, Cenkos is entitled to a corporate finance fee of £46,206 and commission of 1 per cent. on the gross proceeds of the Placing raised from certain persons and a variable commission of between 4 and 5 per cent. on the remaining gross proceeds, depending on the aggregate amount raised. In addition, the Company has agreed to pay or bear all costs, charges and expenses reasonably incurred and arising out of, or incidental to, the Placing, Admission and the arrangements referred to or contemplated in the Placing Agreement, including the costs and expenses of the Registrar.

The Placing Agreement contains (i) certain customary warranties and undertakings given by the Company to Cenkos as to the accuracy of the information contained in this document and other matters relating to the Enlarged Group and its business; (ii) certain customary indemnities from the Company in favour of Cenkos; and (iii) certain undertakings from the Company to, *inter alia*, consult with, or obtain the consent of, Cenkos.

Cenkos may terminate the Placing Agreement in certain circumstances prior to Admission. These include, among others, in the event of a material breach of any of the warranties given by the Company to Cenkos under the Placing Agreement; in the event of a material adverse change in the trading position or business of the Group and/or the Fletchers Group; or in the event of a material adverse change in national or international financial, economic or political conditions.

#### 11.1.4 *Nominated Adviser and Broker Agreement – October 2014*

The Company and Cenkos entered into the nominated adviser and broker agreement on 9 October 2014 whereby, conditional upon Admission, the Company appointed Cenkos to act as its nominated adviser and broker following Admission for an annual fee of £50,000. The appointment may be terminated by either party on not less than three months’ written notice. The agreement contains certain customary indemnities from the Company in favour of Cenkos.

#### 11.1.5 *Transaction Engagement Letter – October 2014*

The Company and Cenkos entered into an agreement on 7 October 2014 pursuant to which Cenkos agreed to provide certain services to the Company in connection with the Transaction. The fees payable by the Company to Cenkos under the terms of that agreement are set out in the summary of the Placing Agreement set out at paragraph 11.1.3 above.

#### 11.1.6 *New Debt Facility Agreement – October 2014*

The Group has entered into a term and revolving facilities agreement (the “**New Debt Facilities**”) on 9 October 2014 with HSBC Bank Plc and Lloyds Bank Plc as lenders and lead arrangers, HSBC Bank plc as agent, HSBC Bank Plc and Lloyds Bank Plc as hedge counterparties and HSBC Corporate Trustee Limited as security agent. The New Debt Facilities include a term loan facility of £13,400,000 (the “**Term Loan**”), a commercial mortgage facility of £3,470,716 (the “**Commercial Mortgage**”) and a revolving credit facility of £8,000,000 (the “**RCF**”) with the option to increase that facility by a further £10,000,000 (subject to certain conditions).

In addition, the Group has entered into (a) an invoice finance facility agreement on 9 October 2014 with HSBC Bank Plc and Lloyds Bank Plc in the amount of £22,000,000 with an interest rate margin of 1.5 per cent. (b) an overdraft facility agreement on 9 October 2014 with HSBC Bank Plc in the amount of £2,000,000 with interest charged at the bank’s base rate plus a margin of 2 per cent. if the ratio of net debt to EBITDA is less than 2.5 times and (c) a FX facility of \$3,000,000 with HSBC Bank plc. The Group’s existing asset finance facility agreement with HSBC Bank plc in the amount of £3,000,000 with an interest rate margin of 1.75 per cent. is to continue.

The proceeds of the first drawdown of the Term Loan will be used to (amongst other things) to fund the Acquisition, pay certain costs of the Acquisition and refinance certain financial indebtedness of the Group to third parties. The proceeds of the drawdown of the Commercial Mortgage are to be used to refinance certain existing indebtedness. Additional amounts may be drawn under the RCF for general corporate purposes and/or working capital purposes and the payment of fees costs and expenses. Drawdown under the Facility Agreement is subject to the satisfaction of certain conditions precedent including completion of the Acquisition.

The opening interest rate for the Term Loan, Commercial Mortgage and the RCF is the applicable interbank offer rate plus a margin of 2.25 per cent. per annum and is subject to an adjustment to the margin ranging from 2.00 per cent. per annum to 2.5 per cent. per annum based on the ratio of Debt to EBITDA.

Amounts under the Term Loan are to be repaid on the last day of each quarter commencing on the 31 December 2014 in equal instalments of £642,105 until 30 June 2019 with a final bullet payment of £1,200,005 at the end of the term. Amounts under the Commercial Mortgage are to be repaid in equal instalments of £92,143 until December 2022. Amounts under the RCF are to be repaid on the last day of each applicable interest period unless the relevant borrower elects otherwise and amounts repaid will (subject to certain drawdown conditions) remain available for redrawing unless cancelled. The RCF will reduce on the second anniversary of the Net Debt Facilities and every 3 months thereafter on a straight line basis until the end of the term. The Net Debt Facilities will terminate and all amounts outstanding thereunder must be repaid on the 5th anniversary of the date of the Net Debt Facilities.

The Net Debt Facilities also provides for the payment of an arrangement fee, monitoring fee and agency fees and contains certain undertakings, guarantees and covenants (including financial covenants based on the ratio of EBITDA to interest costs, net cash flow to senior funding obligations and debt to EBITDA) and provides for certain events of default.

#### 11.1.7 *Joint Venture Agreement – November 2013*

On 25 November 2013, one of the Company’s subsidiaries, Lightbody Holdings Limited, entered into a shareholders’ agreement with Phaste S.a.r.l., Philippe Stretz and Lightbody-Stretz Limited. The agreement relates to the governance of Lightbody SAS (a French entity wholly owned by Lightbody-Stretz Limited) which markets, distributes and sells

ambient and chilled celebration and other cakes, cake bars and cake products in France. Lightbody Holdings Limited and Phaste S.a.r.l. (which is wholly owned by Mr Stretz) each own 50 per cent. of the share capital of Lightbody-Stretz Limited.

Under the terms of the agreement, Lightbody Holdings Limited and Phaste S.a.r.l. are each entitled to appoint one director to the board of directors of Lightbody SAS. Day-to-day management of the business is delegated to Mr Stretz, however, the agreement contains a customary list of reserved matters that require unanimous approval from all shareholders including, but not limited to constitutional changes, the issue of any new share capital, the undertaking of material capital expenditure or materially changing the accounting policies, materially altering the nature of the business or agreeing to any sale of the business or any subsidiary. The Group controls the majority of voting rights pursuant to arrangements with Mr Stretz and, accordingly, Lightbody-Stretz Limited has been consolidated into the Group's accounts.

#### 11.1.8 *Sale and Purchase Agreement relating to Livwell and UBH – February 2013*

On 27 February 2013, the Company entered into an agreement with Genius Foods Limited (“**Genius**”) to sell the entire issued share capital of two of the Company's subsidiaries, Livwell Limited and United Bakeries (Holdings) Limited, to Genius.

Completion took place on 27 February 2013. The Company received approximately £17.7 million in cash as consideration at completion and Genius agreed to pay a further £3 million in cash as deferred consideration on 27 February 2015, or at an earlier date on the occurrence of certain events specified in the agreement.

The Company gave customary warranties as to, amongst other things, the organisation and standing of the companies subject to the sale, title to shares, compliance with food law and the property interests of the companies being sold.

The Company also entered into certain (i) non-compete covenants in favour of Genius in certain geographical areas, generally for a period of four years from completion and, in the case of certain limited business activities, for a period of two years from completion; and (ii) non-solicitation covenants for a period of one year from completion.

#### 11.1.9 *Placing Agreement – November 2012*

The Company and Cenkos entered into a placing agreement on 14 November 2012. Under the agreement, the Company appointed Cenkos as its agent for the purpose of carrying out a placing of Ordinary Shares and Cenkos agreed to use its reasonable endeavours to procure subscribers for such shares. The Company raised approximately £3.9 million through the placing of 10,364,277 new Ordinary Shares at a price of 38 pence per share. The placing was not underwritten.

The net proceeds of the placing were used to fund capital investment projects within the Company's UK cake business. The agreement contained customary warranties and undertakings given by the Company to Cenkos as to certain matters relating to the Group and its business and certain customary indemnities from the Company in favour of Cenkos.

- 11.2 The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Fletchers Group (i) within the two years immediately preceding the date of this document and are, or may be material; or (ii) contain any provision under which the Fletchers Group has any obligation or entitlement which is material to the Fletchers Group as at the date of this document:

#### 11.2.1 *Master Facilities Agreement – December 2013*

Fletchers Bakeries Limited (“**FBL**”) entered into a master facilities agreement dated 4 December 2013 with ABN AMRO Commercial Finance PLC (“**ABN AMRO**”) (the “**Master Facilities Agreement**”), pursuant to which ABN AMRO has made available to FBL:

- (a) a receivables finance facility of up to £13,000,000 to be used for the purchase by ABN AMRO of certain debts owed to FBL. The purchase price payable for such debts is subject to a discount charge of 2 per cent. above the one month rate for Sterling LIBOR or, in the case of debts not denominated in Sterling, ABN AMRO's currency base rate and a fixed service fee of £50,000 per annum;

- (b) a plant and machinery facility of up to £2,700,000 to be used for general corporate purposes including, but not limited to, working capital requirements. This facility could be drawn from the date on which ABN AMRO confirmed that all conditions precedent specified had been satisfied or waived (the “**Commencement Date**”) and is repayable by 44 monthly instalments. £51,000 is due for each of the first 43 monthly instalments and £507,000 is due for the final instalment. Interest is payable at 2.25 per cent above the one month rate for Sterling LIBOR;
- (c) a real property facility of up to £2,250,000 to be used for general corporate purposes including, but not limited to, working capital requirements. This facility could be drawn from the Commencement Date and is repayable by 56 monthly instalments. £20,000 is due for each of the first 55 instalments and £1,150,000 is due for the final instalment. Interest is payable at 2.5 per cent above the one month rate for Sterling LIBOR; and
- (d) a cashflow facility of up to £4,000,000 to be used for general corporate purposes including, but not limited to, working capital requirements. This facility is available as a single advance on the Commencement Date and is repayable by 32 monthly instalments each of £125,000. Interest is payable at 3.5 per cent above the one month rate for Sterling LIBOR.

The Master Facilities Agreement contains usual warranties and representations, general covenants and undertakings, information undertakings and financial covenants.

To provide guarantees and security in connection with the Master Facilities Agreement, the following documents were entered into:

- (a) a composite guarantee and debenture dated 4 December 2013 and made between (1) FBL, Fletchers Bakeries Investments Limited and Fennel, and (2) ABN AMRO; and
- (b) a chattels mortgage dated 4 December 2013 and made between (1) FBL, and (2) ABN AMRO.

Intercreditor arrangements were also made in connection with the Master Facilities Agreement pursuant to an intercreditor deed dated 4 December 2013 and made between (1) ABN AMRO, (2) Eliot Luxco, (3) Lloyds Bank plc, (4) FBL; and (5) Fletchers Bakeries Investments Limited.

The Master Facilities Agreement will be terminated at Completion.

#### 11.2.2 *Investment Agreement – December 2012*

On 20 December 2012, Fennel entered into an investment agreement with Gareth Voyle, Ken McGill, Stephen Holding, Paul Devlin, Steve Boyd, Peter Williams, Simon Sloan and Jeff Dean (the “**Managers**”), and Eliot Luxco. The agreement operates as a customary shareholders’ agreement and includes provisions in respect of, amongst others: (i) the terms on which the Managers and Eliot Luxco subscribed for shares in the capital of Fennel; (ii) the composition, operation and appointment/removal of members of the board of directors of Fennel; (iii) the rights of access to information available to Eliot Luxco as an investor in the company; (iv) certain management and oversight fees payable to Eliot Luxco; (v) restrictions with respect to certain matters relating to Fennel, including schedules of matters which require Eliot Luxco’s prior consent; (vi) certain customary restrictive covenants given by the Managers; and (vii) provisions relating to termination.

The investment agreement will be terminated at Completion.

#### 11.2.3 *Management Services Agreement – January 2007*

On 24 January 2007, Fennel entered into a management services agreement with, amongst other, Eliot Management Services LLP (“**Management LLP**”). Pursuant to the agreement, Fennel and (certain other companies) engaged Management LLP to provide certain central management services, which broadly include: (i) chairman’s services consisting of leadership of the companies’ board and ensuring the effectiveness of all aspects of the role of the operational boards; and (ii) chief operating officer services, consisting of,

amongst others, assistance to the chairman, responsibility for preparing budgets, capital expenditure and financial reporting. The agreement sets out the fees payable by Fennel on a monthly basis.

The management services agreement will be terminated at Completion.

## **12. RELATED PARTY TRANSACTIONS**

12.1 During the period from 1 July 2011 to 28 June 2014 (being the period covered by the historical financial information set out in Part III of this document) the Company did not enter into any related party transactions, save as set out in the audited accounts for the financial years ended in June 2012, 2013 and 2014, which are incorporated by reference into Part III of this document.

12.2 No additional related party transactions to those referred to in paragraph 12.1 above have been entered into by the Company since the end of the period covered by the financial information and up to 9 October 2014 (being the latest practicable date prior to the publication of this document).

## **13. TAKEOVER OFFERS BY THIRD PARTIES FOR THE COMPANY'S SHARES**

There has not been a takeover offer (within the meaning of Part 28 of the Act) for any of the Company's shares during the current financial year or the previous financial year ending on 28 June 2014.

## **14. WORKING CAPITAL**

The Directors are of the opinion that, having made due and careful enquiry and taking into account facilities available to the Enlarged Group and the net proceeds of the Placing receivable by the Company, the Enlarged Group has sufficient working capital for its present requirements, that is for at least 12 months from the date of Admission.

## **15. PRINCIPAL INVESTMENTS**

15.1 Save as disclosed in this document, the Company had no principal investments during the period covered by the financial information and up to 9 October 2014 (being the latest practicable date prior to the publication of this document).

15.2 Save for the Acquisition, there are no principal investments of the Company that are in progress or in relation to which the Company has made any firm commitment.

## **16. INTELLECTUAL PROPERTY**

16.1 Save as disclosed in this document and below, there are no patents or other intellectual property rights, licences, industrial, commercial or financial contracts or new manufacturing processes which are material to the Group's business or profitability. As disclosed in its Annual Report for the financial year ended 28 June 2014, the Group:

16.1.1 holds a licence to manufacture and distribute low fat cake to the UK and Ireland's grocers under the "Weight Watchers" brand;

16.1.2 has a licensing arrangement with the Thorntons confectionery business;

16.1.3 continues to manufacture and distribute cake products under the Nestle confectionary brands;

16.1.4 has a licensing arrangement with Disney to produce celebration cakes;

16.1.5 has a range of other complimentary licences which are particularly focused on driving celebration cake sales; and

16.1.6 has three speciality bread brands which it continues to develop and market under the long term licence agreements.

16.2 Save as disclosed in the document and below, there are no patents or other intellectual property rights, licences, industrial, commercial or financial contracts or new manufacturing processes which are material to the business or profitability of the Fletchers Group. The Fletchers Group:

16.2.1 owns and operates the following domain names: [www.fletchers.co.uk](http://www.fletchers.co.uk), [www.fletcherbakeries.co.uk](http://www.fletcherbakeries.co.uk) and [www.karafs.co.uk](http://www.karafs.co.uk); and

16.2.2 owns and uses trademarks registered with the UK Intellectual Property Office with the following numbers: 1403601, 1403803, 2147305 and 2150567.

## **17. LEGAL AND ARBITRATION PROCEEDINGS**

- 17.1 The Company has been advised of a potential claim for breach of warranty under a sale and purchase agreement dated 27 February 2013 relating to the sale and purchase of shares in United Bakeries (Holdings) Limited and Livwell Limited. The potential claim relates to an alleged non-disclosure of a distribution agreement. The Directors await further information and the quantum of such claim has not yet been identified, although it is currently alleged that the claim is expected to exceed £100,000.
- 17.2 Save as disclosed in paragraph 17.1 above, the Enlarged Group is not involved, nor has been involved, in any governmental, legal or arbitration proceedings in the previous 12 months which have, or may have had in the recent past, a significant effect on the Enlarged Group's financial position or profitability, nor, so far as the Directors are aware, are any such proceedings pending or threatened against the Company or any member of the Enlarged Group.

## **18. TAXATION**

### **18.1 Introduction**

The information in this section is based on the Directors' understanding of current UK tax law and HMRC practice as at the date of this document, both of which are subject to change at any time. It should be regarded as a summary of the tax treatment likely to be afforded UK resident investors holding their Ordinary Shares as investments. It does not constitute legal or tax advice. The tax position of certain categories of Shareholders who are subject to special rules (such as persons acquiring Ordinary Shares in connection with employment, dealers in securities, insurance companies and collective investment schemes) or trustees and beneficiaries as regards shares held in trust is not considered.

*Any person who is in any doubt about their taxation position or who may be subject to tax in a jurisdiction other than the UK is strongly recommended to consult their own professional advisers.*

### **18.2 Tax residence of the Company**

The Company is considered to be resident for tax purposes in the UK. Accordingly, the information provided in this section reflects the taxation treatment appropriate to an investment in a UK tax resident company.

### **18.3 Taxation of chargeable gains made by shareholders**

A sale or other disposal of the Ordinary Shares may, subject to any available reliefs and exemptions, give rise to a chargeable gain (or allowable loss) for the purposes of UK taxation of chargeable gains.

#### *Individuals and Trustees*

Chargeable gains realised on a disposal of Ordinary Shares by an individual resident in the UK will be subject to capital gains tax which is charged at a rate of 28 per cent. for those individuals whose total income and gains exceed the income tax basic rate limit, and at a rate of 18 per cent. where total income and gains fall below the basic rate limit. A flat rate of 28 per cent. applies for trustees and personal representatives who are subject to UK capital gains tax.

An individual shareholder who disposes of Ordinary Shares while only temporarily not resident in the UK for tax purposes, may, under anti-avoidance legislation, still be liable to UK tax on his or her return to the UK. Subject to matching rules which apply to same day transactions or transactions in the next 30 days, shares of the same class acquired by the same person and in the same capacity are "pooled" and treated as a single asset growing or diminishing as shares of the same class are acquired or disposed. Accordingly on a part disposal of the relevant shareholding the gain (or loss) will be computed by reference to that proportionate part of the aggregate cost of the holding attributable to the shares disposed.

#### *Companies*

UK resident corporate shareholders are subject to corporation tax on their chargeable gains. Gains realised by such companies, as reduced by available indexation relief, are subject to corporation tax at the company's relevant rate. Indexation relief is deductible in computing any gain arising on a disposal of, or out of, the holding and is computed by reference to the

movement in the Retail Price Index over the period of ownership applied to the cost of the holding, or that part of the holding, disposed. As for individuals and trustees, shares of the same class held by a corporate shareholder are “pooled”.

#### *Non residents*

Shareholders who are not resident or ordinarily resident in the UK and who are not affected by the rules relating to temporary non residence will, save in limited circumstances, not be liable to UK taxation on chargeable gains realised on the disposal of their Ordinary Shares. Such shareholders may be subject to foreign taxation on any gain realised under the local law of their country of residence and should consult their own tax adviser concerning their tax liabilities on such gains.

### **18.4 Taxation of dividends**

The taxation of dividends paid by the Company and received by an investor resident for tax purposes in the UK is summarised below.

#### *Individuals*

A UK resident individual shareholder in receipt of dividends is treated as receiving income of an amount equal to the sum of the dividend and its associated tax credit. The tax credit currently equates to 10 per cent. of the gross dividend, being the combined amount of the dividend and the tax credit (the tax credit therefore representing one-ninth of the net dividend). The gross dividend is subject to income tax as, generally, the top slice of the individual’s income and is taxed at the individual’s marginal rate of income tax. The tax credit is available to set against the resulting liability (if any) to income tax. An individual liable to income tax at the basic rate will be liable to tax on the gross dividend at a rate of 10 per cent. (“the dividend ordinary rate” which is a special rate of tax set for basic rate taxpayers in receipt of dividend income). Accordingly, the tax credit will satisfy the income tax liability of such an individual. Similarly, individuals liable at the starting rate for savers, currently set at 10 per cent., will have no further liability as a result of the available tax credit. An individual liable to income tax at the higher rate will pay tax on the gross dividend at a rate of 32.5 per cent. (“the dividend upper rate” which is a special rate of tax set for higher rate taxpayers in receipt of dividend income). After taking into account the tax credit of 10 per cent. a higher rate taxpayer will be liable to additional income tax of 22.5 per cent. of the gross dividend, which equates to 25 per cent. of the actual or net dividend. An individual liable to income tax at the additional rate will pay tax on the gross dividend at a rate of 37.5 per cent. (“the dividend additional rate” which is a special rate of tax set for additional rate taxpayers in receipt of dividend income). After taking into account the tax credit of 10 per cent., an additional rate taxpayer will be liable to additional income tax of 27.5 per cent. of the gross dividend, which equates to 30.56 per cent. of the actual or net dividend.

#### *Trustees*

UK resident trustees of a discretionary trust in receipt of dividends are liable to income tax at a rate of 37.5 per cent. (“the dividend trust rate”) of the gross dividend to the extent trust income exceeds the standard rate band. After giving effect to the tax credit of 10 per cent. the trustees will be liable to additional income tax of 27.5 per cent. of the gross dividend, which equates to 30.56 per cent. of the actual or net dividend.

#### *Companies*

Although a UK resident corporate shareholder is potentially liable to corporation tax on its dividend income, it is anticipated that the general exemption for dividends will be available to exempt from corporation tax corporate investors in receipt of dividends from the Company.

### **18.5 Withholding tax and tax credit in UK**

The Company is not required to withhold tax when paying a dividend. Liability to tax on dividends will depend upon the individual circumstances of a Shareholder. Other UK resident Shareholders who are not liable to UK tax on dividends, including pension funds and charities, are not entitled to claim repayment of the tax credit. Shareholders who are resident outside the UK for tax purposes will not generally be able to claim repayment of any part of the tax credit attaching to dividends received from the Company, although this will depend on the existence and terms of any double taxation convention between the UK and the country in which such shareholder is resident. A Shareholder resident outside the UK may also be subject to taxation

on dividend income under local law. A Shareholder who is resident outside the UK for tax purposes should consult his own tax adviser concerning his tax position on dividends received from the Company.

#### **18.6 Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)**

No stamp duty or SDRT will arise on the issue or allotment of Placing Shares, nor on transfers or agreements to transfer Ordinary Shares by virtue of the exemption from 28 April 2014 from stamp duty and SDRT on shares traded on AIM.

The statements in this paragraph 18.6 apply to any holders of Ordinary Shares irrespective of their residence, and are a summary of the current position, intended as a general guide only. Special rules apply to agreements made by, amongst others, intermediaries.

#### **18.7 Income Tax**

The following information applies to non-employee shareholders. Employee shareholders may be subject to an alternative tax regime and should consult their own professional adviser. There will be no charge to income tax on the purchase or sale of the Ordinary Shares. The tax treatment of dividends received on the Ordinary Shares is dealt with in paragraph 18.4 above.

#### **18.8 Inheritance Tax**

The Ordinary Shares are considered, potentially, to qualify for business property relief for the purposes of inheritance tax. Shares in an unquoted company (other than an investment company or one which carries on a business consisting wholly or mainly of dealing in securities, stocks, shares, land and buildings) potentially attract relief (as business property) from inheritance tax where the shares have been held for two years prior to the chargeable transfer for inheritance tax purposes.

### **19. SHARE OPTION SCHEMES**

#### **19.1 The Finsbury Food Group Long Term Incentive Plan 2006 (the “Plan”)**

##### *General*

The Company established the Plan on 29 November 2006 to replace the 1997 Share Option Schemes. HMRC approved Part A of the Plan on 24 January 2007.

##### **CSOP Options (“Part A”)**

##### *Eligibility*

The Plan permits the Board, in its absolute discretion, and the trustees of any trust which holds shares in the Company (“Trustees”), to grant a right to acquire Ordinary Shares to any individual who is a Director or employee of a Group company who, if a Director, works at least 25 hours per week.

##### *Grant of options*

Unless the Board is of the opinion that exceptional circumstances mean an option should be granted outside these periods, options may only be granted under the Plan during a 42 day period following notification to the London Stock Exchange of the annual or half-yearly results of the Company.

No option may be granted after the tenth anniversary of the date of adoption of the Plan. No option may be granted during a close period of the Company.

Options are granted at a price that is not less than the greater of the market value on the date of grant and the nominal value of the share.

##### *Conditions of exercise*

Options may be granted subject to objective conditions of exercise laid down at the discretion of the Board or the Trustees at the time of grant and as notified to the option holder. Such conditions are capable of being waived or amended by the Board or the Trustees on a corporate event or on the occurrence of any other event if the conditions laid down are considered to no longer be a fair measure of performance and any amended conditions are no more or less difficult to satisfy.

##### *Exercise and lapse of options*

No option may be exercised within a three year period beginning on the date of grant.

Normally, no option may be exercised other than in accordance with any instalment schedule applied to the option.

Except as provided in the section below relating to the exercise of options on a corporate event, options may only be exercised if any relevant condition has been fulfilled to the satisfaction of the Board or the Trustees.

Except as provided below, an option may only be exercised under the Plan whilst the holder holds office or employment with a Group company or an associated company. An option holder ceasing to hold office or employment with all Group companies or associated companies may exercise the option within six months of such cessation (and 12 months in the case of death) if he has left the same for a good reason, being: injury or disability; redundancy; retirement; death or any other reason at the Board's discretion, provided dismissal for cause or voluntary resignation shall not constitute a good reason.

Any part of an option granted which is described as an annual award may only be exercised in consequence of certain events (including: cessation of employment for good reason; takeover, scheme of arrangement or winding up or demerger of the Company or any subsidiary, distribution in specie, special dividend or other transaction which may affect the value of an option), to the extent that the Board or Trustees consider it reasonable to allow it. In such an event the number of shares that may be exercised is to be calculated according to whether there exists any instalment schedule relating to them and, if not, it may be exercised proportionately to the number of shares over which it was granted and to the extent that three years has passed since the date of grant. However, the Board or Trustees may exercise their discretion to allow a greater number of the shares over which the option was granted to be purchased.

An option granted under the Plan shall lapse upon the occurrence of the earlier of: the tenth anniversary of the date of grant; the expiry of any period specified in the Plan where the option is released in consideration of a grant of a new option over new shares; the option holder giving or being given notice to leave his employment with all Group companies other than where the reason for this is a good reason; and the option holder ceasing to hold office or employment with all Group companies other than the reason for this is a good reason. Options are not transferable (other than to a participant's personal representatives in the event of his or her death).

#### *Individual limit*

No option shall be granted to a person where such grant would result in the aggregate market value, on the date of acquisition, of all the Ordinary Shares which he may acquire on the exercise of any option granted to him under the Plan, exceeding £30,000. Options that have been exercised or are already lapsed are to be disregarded.

Any option granted under the Plan shall be limited and take effect so that it is over the maximum number of Ordinary Shares which, when multiplied by the Ordinary Shares' market value, does not exceed the limits imposed by the Plan.

#### *Scheme limit*

No option may be granted without the prior approval of the Company in general meeting if the total number of Ordinary Shares which may be required to be issued by the Company to option holders or to Trustees on the exercise of the option, when aggregated with all the Ordinary Shares issued or issuable pursuant to the Plan or any other share scheme of the Company granted in the preceding ten years, exceeds 20 per cent. of the issued share capital of the Company from time to time.

#### *Corporate events*

Options may be exercised in the event of a takeover, scheme of arrangement or winding-up of the Company.

In the event of another company acquiring control of the Company, participants may, in certain circumstances, be allowed to exchange their options for options of equivalent value over shares in the acquiring company.

If notice is given to the shareholders in the Company of a proposed demerger of the Company or of any subsidiary, distribution in specie, special dividend or other transaction which may affect the value of an option the Board may, subject to confirmation from the auditors of the

Company that the holders' interests would be prejudiced if they could not exercise their options, give notice to the option holders that options may be exercised within such period (not exceeding 30 days) as the Board specify.

*Variations of share capital*

The number of Ordinary Shares comprised in each option and/or the option price may, with the prior approval of HMRC (if required), be adjusted provided always that the option price shall not ordinarily be adjusted below the nominal value of the shares.

*Amendment*

Subject to protection afforded to the option holders' rights, the Board may in any respect alter the Plan from time to time. If any alteration would abrogate or adversely affect the rights of an option holder it must be made with the consent in writing of the holders of options under the Plan to acquire at least 75 per cent. of the number of shares which would be issued or transferred to holders if all outstanding options under the Plan were exercised or by resolution at a meeting of the option holders where no less than 75 per cent. of the option holders in attendance and who vote by person or by proxy pass it.

**(b) Non CSOP Options (“Part B”)**

*General*

The provisions of Part A apply except that the following substantive differences apply:

*Eligibility*

Any Director or employee of, or any consultant to, any Group company may be awarded options.

*Grant of options*

The option price may be set at any level, including nil, determined by the Board.

Options may be granted at any time after adoption of the scheme provided the Company is not in a close period.

*Conditions of exercise*

Any performance conditions set need not be objective.

*Individual limits*

No individual limits apply to the maximum number of Ordinary Shares under option that may be granted to a person.

*Exercise and lapse of options*

Where an option holder ceases to hold office or employment with all Group companies or associated companies for a good reason, if the Company or Trustees, in its or their absolute discretion so decide, the option holder shall have the right to exercise the option wholly or partly.

**19.2 Finsbury Food Group Sharesave Plan (“Sharesave Plan”)**

*General*

The Company adopted the Sharesave Plan on 28 November 2007. HMRC approved the Sharesave Plan on 20 December 2007.

*Eligibility*

All employees (including executive Directors) who have worked for the Company or a participating subsidiary or subsidiaries of the Company for a qualifying period as determined by the Board (but not to exceed five years) and any other employee nominated by the Board may be invited to participate in the Sharesave Plan.

*Grant of options*

Unless the Board is of the opinion that exceptional circumstances mean an option should be granted outside this period, options may only be granted under the Sharesave Plan within a period of 42 days following notification to the London Stock Exchange of the annual or half-yearly results of the Company.

No option may be granted after the tenth anniversary of the date of adoption of the Sharesave Plan.

Options are granted at a price that is not less than 80 per cent. of the average closing mid-market price of a share on the day before the invitations to participate are sent out to employees.

Options granted under the Sharesave Plan are not transferable (other than to a participant's personal representatives in the event of his or her death).

#### *Savings contract and the exercise and lapse of options*

Participants granted an option under the Sharesave Plan must enter into a savings contract with a designated savings carrier under which they make savings, usually by means of a net salary deduction, for a period of three or five years. The amounts saved each month must not be less than £5 and may not exceed the maximum limit imposed by the relevant legislation (currently £500 per month). A bonus may be paid on completion of the savings contract, as set by HM Treasury. The Board will specify at the time of each operation of the Sharesave Plan which length of savings contract employees may enter into.

Options are normally exercisable during a six month period following the completion of savings under the relevant savings contract. Options not exercised within this six month period will lapse.

Except as provided below, an option may only be exercised under the Sharesave Plan whilst the holder holds office or employment with a Group company or an associated company. An option holder ceasing to hold office or employment with all Group companies or associated companies may exercise the option within six months of such cessation (and 12 months in the case of death) if he has left the same for a good reason, being: injury or disability; redundancy; retirement or death.

#### *Scheme limit*

No option may be granted without the prior approval of the Company in general meeting if the total number of shares which may be required to be issued by the Company to option holders or to trustees of an employee benefit trust on the exercise of the option, when aggregated with all the Ordinary Shares issued or issuable pursuant to the Sharesave Plan or any other share scheme of the Company granted in the preceding ten years, exceeds 20 per cent. of the issued share capital of the Company from time to time.

#### *Corporate events*

Options may be exercised in the event of a takeover, scheme of arrangement or winding-up of the Company, using savings made (together with, if relevant, any interest due).

In the event of another company acquiring control of the Company, participants may, in certain circumstances, be allowed to exchange their options for options of equivalent value over shares in the acquiring company.

#### *Variation in Share Capital*

In the event of any variation in the share capital of the Company, the exercise price and number of Ordinary Shares over which options have been granted may be adjusted (subject to the approval of HMRC, if required) in order to maintain the options' value.

#### *Amendment*

The Board, may, at any time, amend the Sharesave Plan, provided that no amendment adversely affects the terms of options granted prior to the amendment.

## **20. MANDATORY BIDS, SQUEEZE-OUT AND SELL OUT RULES**

### **20.1 Mandatory bid**

The Takeover Code applies to the Company. Under the Takeover Code, if an acquisition of Ordinary Shares were to increase the aggregate holding of the acquirer and its concert parties to Ordinary Shares carrying 30 per cent. or more of the voting rights in the Company, the acquirer and, depending on the circumstances, its concert parties, would be required (except with the consent of the Takeover Panel) to make a cash offer for the outstanding Ordinary Shares in the Company at a price not less than the highest price paid for Ordinary Shares by the acquirer or

its concert parties during the previous 12 months. This requirement would also be triggered by any acquisition of Ordinary Shares by a person holding (together with its concert parties) Ordinary Shares carrying between 30 per cent. and 50 per cent. of the voting rights in the Company if the effect of such acquisition were to increase that person's percentage of the voting rights in the Company.

## 20.2 Squeeze-out

Under the Act, if an offeror were to acquire 90 per cent. of the Ordinary Shares within four months of making its offer, it could then compulsorily acquire the remaining 10 per cent. The offeror would do so by sending a notice to remaining Shareholders telling them that it would compulsorily acquire their Ordinary Shares. Six weeks later, the offeror would be entitled to execute a transfer of the outstanding Ordinary Shares to it and pay the consideration to the Company, which would hold it on trust for such remaining Shareholders. The consideration offered to the Shareholders whose Ordinary Shares are compulsorily acquired under the Act must, in general, be the same as the consideration that was available under the takeover offer.

## 20.3 Sell-out

The Act would also give minority shareholders in the Company a right to be bought out in certain circumstances by an offeror who had made a takeover offer. If a takeover offer related to all the Ordinary Shares in the Company and, at any time before the end of the period within which the offer could be accepted, the offeror held (or had agreed to acquire) not less than 90 per cent. of the Shares, any shareholder to which the offer related who had not accepted the offer could, by a written communication to the offeror, require it to acquire those Ordinary Shares.

The offeror would be required to give any Shareholder notice of his right to be bought out within one month of that right arising. The offeror could impose a time limit on those rights of minority Shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period under the offer. If a Shareholder exercises his rights, the offeror is entitled and bound to acquire those Ordinary Shares on the terms of the offer or on such other terms as may be agreed.

## 21. NO SIGNIFICANT CHANGE

- 21.1 There has been no significant change in the financial or trading position of the Group since the date to which the historical financial information set out in Part III of this document has been prepared.
- 21.2 There has been no significant change in the financial or trading position of the Fletchers Group since the date to which the historical financial information set out in Part IV of this document has been prepared.

## 22. GENERAL

- 22.1 The total expenses payable by the Company in connection with the Transaction (including those fees and commissions referred to in paragraph 11.1.3 of this Part VI) are estimated to amount to approximately £2.7 million (excluding VAT). £1.7 million of these expenses relate to the Placing and Admission and £1.0 million relate to the Acquisition. The net proceeds of the Placing will be £33.3 million.
- 22.2 Cenkos, which is authorised by the Financial Conduct Authority, has given and not withdrawn its written consent to the inclusion in this document of its name and the references thereto in the form and context in which they appear.
- 22.3 Cenkos is registered in England and Wales under number 5210733 and its registered office is at 6.7.8 Tokenhouse Yard, London EC2R 7AS.
- 22.4 KPMG LLP has given and not withdrawn its written consent to the inclusion in this document of the report set out in Part IV and has authorised the contents of its report for the purposes of Schedule Two to the AIM Rules in the form and context in which it appears.
- 22.5 KPMG Audit Plc, which is a member of the Institute of Chartered Accountants in England and Wales, and whose office is at 3 Assembly Square, Britannia Quay, Cardiff Bay CF10 4AX, were the auditors of the Company during the 52 weeks ended 30 June 2012 and 29 June 2013. KPMG LLP, which is a member of the Institute of Chartered Accountants in England and

Wales, and whose office is at 3 Assembly Square, Britannia Quay, Cardiff Bay CF10 4AX, have been the auditors of the Company during the 52 weeks ended 28 June 2014 and up to 9 October 2014 (being the latest practicable date prior to the publication of this document).

22.6 KPMG LLP, which is a member of the Institute of Chartered Accountants in England and Wales, and whose office is at 1 The Embankment, Neville Street, Leeds, LS1 4DW, have been the auditors of Fletchers Group during the period covered by the financial information and up to 9 October 2014 (being the latest practicable date prior to the publication of this document).

22.7 As far as the Directors are aware, there are no environmental issues that may affect the Enlarged Group's utilisation of its tangible fixed assets.

22.8 Save for the Company's share option schemes described in paragraph 19 of this Part VI, there are no employee share incentive arrangements involving a share in the capital of the Company in place at the date of this document.

22.9 The gross sum raised pursuant to the Placing is expected to be £35.0 million which will be applied in the following order of priority:

22.9.1 consideration towards the Acquisition: £33.3 million; and

22.9.2 commissions and expenses payable under the Placing: £1.7 million.

The proceeds of the Placing are sufficient to fund the proposed use stated above.

22.10 No person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has:

22.10.1 received, directly or indirectly, from the Company within the 12 months preceding the date of this document; or

22.10.2 entered into any contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission any of the following:

(a) fees totalling £10,000 or more;

(b) securities of the Company where these have a value of £10,000 or more calculated by reference to the Placing Price; or

(c) any other benefit with the value of £10,000 or more at the date of this document.

22.11 The Placing Shares have not been sold, nor are they available, in whole or in part, to the public in connection with the application for Admission.

22.12 The Directors are not aware of any exceptional factors which have influenced the Enlarged Group's activities.

22.13 Save as disclosed in this document, so far as the Directors are aware, there are no known trends, uncertainties, demands, commitments or events that have or may have had in the last 12 months preceding the publication of this document a significant effect on the financial position of the Enlarged Group or which are likely to have a material effect on the Enlarged Group's prospects for the next 12 months.

22.14 To the extent that information in this document has been sourced from third parties, such information has been accurately reproduced and, as far as the Company is aware and has been able to ascertain from information published by the relevant third party, no facts have been omitted which render the reproduced information inaccurate or misleading.

### **23. AVAILABILITY OF ADMISSION DOCUMENT**

Copies of this document will be available free of charge during normal business hours on any week day (Saturdays, Sundays and public holidays excepted) until the date following one month after the date of Admission at the registered office of the Company and at the offices of Cenkos Securities Plc at 6.7.8 Tokenhouse Yard, London EC2R 7AS.

Dated: 10 October 2014

# FINSBURY FOOD GROUP PLC

(the “Company”)

(Registered and incorporated in England and Wales with company number 204368)

## NOTICE OF GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a general meeting of the Company will be held at the offices of CMS Cameron McKenna LLP at Mitre House, 160 Aldersgate Street, London EC1A 4DD on 29 October 2014 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions (the “**Resolutions**”) which in the case of Resolutions 1 and 2 will be proposed as ordinary resolutions and in the case of Resolutions 3 and 4 will be proposed as special resolutions.

### Ordinary Resolutions

1. That, conditional on the passing of Resolution 2 and Resolution 3, the acquisition by the Company of the entire issued share capital of Fennel Acquisition Limited (the “**Acquisition**”) pursuant to the terms of a conditional sale and purchase agreement dated 9 October 2014 and made between various vendors and the Company, particulars of which are set out in the Admission Document of the Company dated 10 October 2014 (the “**Admission Document**”), be and is hereby approved and that the directors of the Company be and are hereby authorised to take all steps necessary to effect the Acquisition with such minor modifications, variations, amendments or revisions and to do or procure to be done such other things in connection with the Acquisition as they consider to be in the best interests of the Company.
2. That, conditional on the passing of Resolution 1 and Resolution 3, in accordance with section 551 of the Companies Act 2006 (the “**Act**”), the directors of the Company be and are generally and unconditionally authorised to exercise all powers of the Company to allot shares and to grant rights to subscribe for or to convert any security into shares:
  - 2.1 up to a maximum nominal amount of £593,220 in connection with the proposed placing of shares as described in the Admission Document (the “**Placing**”);
  - 2.2 up to an aggregate nominal amount of £416,546 in addition to the authority conferred in sub-paragraph 2.1 above, representing approximately 33 per cent. of the Company’s enlarged issued share capital following completion of the Placing,

provided that this authority shall expire (unless previously varied as to duration, revoked or renewed by the Company in general meeting) on the date being fifteen months from the date of the passing of this Resolution or, if earlier, the conclusion of the next annual general meeting of the Company to be held after the passing of this Resolution, except that the Company may before such expiry make any offer or agreement which would or might require shares to be allotted or such rights to be granted after such expiry and the directors may allot shares or grant such rights in pursuance of such offer or agreement as if the authority conferred by this Resolution had not expired, and this authority shall be in substitution for all existing authorities to allot to the extent unused.

This Resolution revokes and replaces all unexercised powers previously granted to the directors to allot equity securities but without prejudice to any allotment of equity securities already made or agreed to be made pursuant to such authorities.

### Special Resolutions

3. That, conditional on the passing of Resolution 1 and Resolution 2, the directors be empowered pursuant to section 570 of the Act to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the general authority conferred on them by Resolution 2 above as if section 561 of the Act did not apply to any such allotment or sale, provided that this power shall be limited to:
  - 3.1 the allotment (otherwise than pursuant to sub-paragraph 3.3 below) of equity securities in connection with the Placing;
  - 3.2 the allotment of equity securities in connection with an offer by way of a rights issue:
    - 3.2.1 to the holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings; and

3.2.2 to holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary,

but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any applicable regulatory body or stock exchange; and

3.3 the allotment (otherwise than pursuant to sub-paragraphs 3.1, and 3.2 above) of equity securities up to an aggregate nominal amount of £126,226, representing approximately 10 per cent. of the Company's enlarged issued share capital following the Placing,

provided that this authority shall expire, unless previously revoked or renewed by the Company in general meeting, at such time as the general authority conferred on the directors by Resolution 2 above expires, except that the Company may before such expiry make any offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred by this Resolution had not expired.

This Resolution revokes and replaces all unexercised powers previously granted to the directors to allot equity securities as if section 561(1) of the Act did not apply but without prejudice to any allotment of equity securities already made or agreed to be made pursuant to such authorities.

4. That the Articles of Association of the Company be amended by the deletion of Article 4 (*Authorised Share Capital*).

**BY ORDER OF THE BOARD**

**City Group PLC**  
Company Secretary

*Registered Office:*  
Maes y Coed Road  
Cardiff  
CF14 4XR

10 October 2014

## **Explanatory Notes:**

### **Entitlement to attend and vote**

1. The Company specifies that only those members registered on the Company's register of members at:
  - 6.00 p.m. on 27 October 2014; or,
  - if this meeting is adjourned, at 6.00 p.m. on the day two days prior to the adjourned meeting,shall be entitled to attend and vote at the meeting.

### **Appointment of proxies**

2. If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
3. A proxy does not need to be a member of the Company but must attend the meeting to represent you. Details of how to appoint the chairman of the meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the chairman) and give your instructions directly to them.
4. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. To appoint more than one proxy please refer to the notes on the proxy form.

### **Appointment of proxy using hard copy proxy form**

5. The notes to the proxy form explain how to direct your proxy how to vote on each Resolution or withhold their vote. To appoint a proxy using the proxy form, the form must be:
  - completed and signed;
  - sent or delivered to Capita Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF; and
  - received by Capita Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF no later than 6 p.m. on the day two days prior to the meeting.

In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

### **Appointment of proxy by joint members**

6. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

### **Changing proxy instructions**

7. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hardcopy proxy form, please contact Capita Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF.

If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

**Termination of proxy appointments**

In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

The revocation notice must be received by Capita Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF no later than 10 a.m. on the day two days prior to the meeting.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, your proxy appointment will remain valid. However, appointment of a proxy does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

