

Notes to the Company's Financial Statements

(forming part of the Financial Statements)

32. Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Financial Statements.

Basis of Preparation

The financial year was the 52 weeks ended 29 June 2019 (prior financial year 52 weeks ended 30 June 2018).

These Financial Statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

In preparing these Financial Statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next Financial Statements.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own Profit and Loss Account. The profit or loss for the year is set out in the Statement of Changes in Equity.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under the standard in relation to the following disclosures;

- Presentation of a Cash Flow Statement and related Notes
- Capital management
- Comparative period reconciliations for share capital and tangible fixed assets
- Impairment of assets
- Transactions with wholly owned subsidiaries
- The effects of new but not yet effective IFRSs
- Key management personnel

As the consolidated Financial Statements of Finsbury Food Group Plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of Group settled share based payments
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures

The prior year comparatives in the Financial Statements have been restated to reflect the following prior year adjustments:

The other interest-bearing loans and borrowings within current liabilities has been reduced by £24.7 million and the other interest-bearing loans and borrowings within non-current liabilities has been increased by £24.7 million to reflect the appropriate classification of the Group's Revolving Credit Facility which has a maturity date of February 2023. This adjustment does not impact any other primary Financial Statement.

Where required equivalent disclosures are given in the Group accounts of Finsbury Food Group Plc, which are available within this report. The Financial Statements are prepared on the historical cost basis except where stated at their fair value. The principal accounting policies of the Company are as follows:

Investments

Investments are stated at cost less provision for any permanent impairment. Any impairment is charged to the profit and loss as it arises. Impairment to investments is tested via impairment testing performed over goodwill, as discussed in Note 1 of the Group Significant Accounting Policies.

Foreign Currency

Transactions in foreign currencies are translated to Sterling 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 Sterling 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.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Sterling, at foreign exchange rates ruling at the period end date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. This revaluation is recognised through Other Comprehensive Income.

Derivative Financial Instruments

The Company has derivative financial instruments in respect of interest rate swaps and foreign exchange hedges. The Company does not hold derivative financial instruments for trading purposes. The existing interest rate swaps and foreign exchange hedges used by the Company while they function as hedges, do not meet the criteria for hedge accounting set out by IAS 39, and have thus been treated as financial assets and liabilities which are carried at their fair value in the Company Balance Sheet. Fair value is deemed to be market value, which is provided by the counterparty at the year end date.

Changes in the market value of interest rate swaps have been recognised through the Consolidated Statement of Comprehensive Income as finance income or cost. Changes in the market value of foreign exchange hedges have been recognised through the Consolidated Statement of Comprehensive Income within administrative costs.

Notes to the Company's Financial Statements

32. Accounting Policies (continued)

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.

Unless otherwise indicated, the carrying amounts of the Group's financial assets and liabilities are a reasonable approximation of their fair values.

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 stated at amortised cost using the effective interest method.

Share Based Payment Transactions

The value, as at the grant date, of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted.

Taxation

The credit for taxation is based on the loss for the year and takes into account taxation deferred because of temporary differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all temporary differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date.

Going Concern

The Group has prepared a budget for the year ended 27 June 2020 and financial projections for the following two years. The Group has a five-year debt facility to February 2023 of £55.0 million with scope for the facility to be increased by up to a further £35.0 million, providing increased capacity for the Group to explore future growth opportunities and support its long-term investment strategy. The Group has a relatively conservative level of debt to earnings. Having due consideration of the financial projections, the level of debt, and available facilities, it is the opinion of the Directors that the Group has adequate resources to continue in operation for the foreseeable future and, therefore, consider it appropriate to prepare the Financial Statements on the going concern basis. Further details are set out in the basis of preparation.

Shares held by Employee Share Trusts

Shares held to satisfy options are accounted for in accordance with IAS 32 'Financial Instruments'. All differences between the purchase price of the shares held to satisfy options granted and the proceeds received for the shares, whether on exercise or lapse, are charged to reserves.

33. Remuneration of Directors

Details of Directors' remuneration are set out in Note 7 of the Group's Financial Statements.

34. Staff Numbers and Costs

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

	Number of employees	
	2019	2018
Directors and administrative staff	53	44

The aggregate payroll costs of these persons were as follows:

	2019	2018
	£000	£000
Wages and salaries	4,467	4,354
Social security costs	500	465
Other pension costs	306	249
	5,273	5,068

Notes to the Company's Financial Statements

35. Share Based Payments

Details of Directors share options are set out in Note 7 of the Group's Financial Statements and details of all share options issued are set out in Note 25 to the Group Financial Statements. During the year 887,208 (2018: 496,429) of the total 1,182,166 (2018: 858,659) share options granted were issued to employees of the Company. The remaining options were granted to employees of the subsidiary companies with corresponding charges to the relevant profit and loss accounts. The total charge in the financial year to the Company for all share options relating to current and prior years was £545,000 (2018: £944,000). Credits relating to options exercised, cancelled or lapsed after vesting have also been passed to the subsidiaries during the year. The credit totalled £26,000 (2018: charge £194,000) and has resulted in a decrease (2018: increase) in the total cost of investments in the Company balance sheet. Details of Directors' share options are set out in Note 7 of the Group's Financial Statements.

36. Finance Income and Cost

Recognised in the Company Statement of Comprehensive Income

	2019 £000	2018 £000
Finance income		
Change in fair value of interest rate swaps	-	143
Inter-group recharge	426	182
Bank interest receivable	16	1
Income from interest rate swap agreements	60	2
Total finance income	502	328
Finance cost		
Change in fair value of interest rate swaps	(382)	-
Bank interest payable	(965)	(406)
Unwinding of discount on deferred consideration	(139)	-
Total finance cost	(1,486)	(406)
Net finance cost	(984)	(78)

37. Dividends

On 21 December 2018, a final dividend of 2.2p per share was paid to shareholders on the register at the close of business on 23 November 2018, the amount paid was £2,808,945. An interim dividend for the six months to 30 December 2018 of 1.16p per share was paid on 26 April 2019 to shareholders on the register at the close of business on 5 April 2019. The amount paid was £1,474,474.

A final dividend of 2.34p per share has been proposed taking the total dividend to 3.5p per share. Subject to shareholder approval at the Company's AGM on 20 November 2019, the final dividend will be paid on 23 December 2019 to all shareholders on the register at 22 November 2019.

Notes to the Company's Financial Statements

38. Investment in Subsidiaries and Equity Accounted Investees

Set out below are all undertakings of the Company whose results are included in the Consolidated Financial Statements for the period ended 29 June 2019.

Subsidiary	Registered address	Direct/ Indirect ownership	Country of incorporation	Class of shares held	2019	2018
Anthony Alan Foods Ltd	Maes-y-coed Rd, Cardiff, CF14 4XR	Direct	England and Wales	Ordinary	£1 100%	100%
California Cake Company Ltd	73 Bothwell Rd, Hamilton, ML3 0DW	Indirect	Scotland	Ordinary	£1 100%	100%
California Cake Company (Holdings) Ltd	73 Bothwell Rd, Hamilton, ML3 0DW	Direct	Scotland	Ordinary	£1 100%	100%
Campbells Cake Company Ltd	73 Bothwell Rd, Hamilton, ML3 0DW	Indirect	Scotland	Ordinary	£1 100%	100%
Campbells Cake (Holdings) Ltd	73 Bothwell Rd, Hamilton, ML3 0DW	Direct	Scotland	Ordinary	£1 100%	100%
Dr Zak's Ltd	Unit 3 Stirling Court, Stirling Way, Borehamwood, WD6 2BT	Indirect	England and Wales	Ordinary	£1 31%	31%
Fennel Acquisition Ltd	Maes-y-coed Rd, Cardiff, CF14 4XR	Direct	England and Wales	Ordinary	£1 100%	100%
Fletchers Bakeries Ltd	Maes-y-coed Rd, Cardiff, CF14 4XR	Indirect	England and Wales	Ordinary	£1 100%	100%
Fletchers Bakeries Investment Ltd	Maes-y-coed Rd, Cardiff, CF14 4XR	Indirect	England and Wales	Ordinary	£1 100%	100%
Goswell Enterprises Ltd	Maes-y-coed Rd, Cardiff, CF14 4XR	Indirect	England and Wales	Ordinary	£1 100%	100%
Goswell Marketing Ltd	Maes-y-coed Rd, Cardiff, CF14 4XR	Indirect	England and Wales	Ordinary	£1 100%	100%
Johnstone's Food Service Ltd	73 Bothwell Rd, Hamilton, ML3 0DW	Indirect	Scotland	Ordinary	£1 100%	100%
Lifestyle Healthcare Ltd	Maes-y-coed Rd, Cardiff, CF14 4XR	Direct	England and Wales	Ordinary	£1 50%	-
Lifestyle Healthcare Ltd	Maes-y-coed Rd, Cardiff, CF14 4XR	Indirect	England and Wales	Ordinary	£1 50%	-
Lightbody Celebration Cakes Ltd	73 Bothwell Rd, Hamilton, ML3 0DW	Indirect	Scotland	Ordinary	£1 100%	100%
Lightbody Group Ltd	73 Bothwell Rd, Hamilton, ML3 0DW	Direct	Scotland	Ordinary	£1 100%	100%
Lightbody Holdings Ltd	73 Bothwell Rd, Hamilton, ML3 0DW	Indirect	Scotland	Ordinary	£1 100%	100%
Lightbody of Hamilton Ltd	73 Bothwell Rd, Hamilton, ML3 0DW	Indirect	Scotland	Ordinary	£1 100%	100%
Lightbody-Stretz Ltd	73 Bothwell Rd, Hamilton, ML3 0DW	Indirect	Scotland	Ordinary	£1 100%	100%
Lightbody Europe SAS	14 Allée Coysevox, CS 56939, 35069 Rennes Cedex France	Indirect	France	Ordinary	£1 50%	50%
Memory Lane Cakes Ltd	Maes-y-coed Rd, Cardiff, CF14 4XR	Direct	England and Wales	Ordinary	1p 100%	100%
Murray Traders Ltd	3 Inch Marnock, St Leonards, East Kilbride, South Lanarkshire, G74 2JQ	Indirect	Scotland	Preference	£1 10.5%	10.5%
Nicholas & Harris Ltd	Maes-y-coed Rd, Cardiff, CF14 4XR	Indirect	England and Wales	Ordinary	£1 100%	100%
Storesurvey Ltd	Maes-y-coed Rd, Cardiff, CF14 4XR	Direct	England and Wales	Ordinary	£1 100%	100%
Ultraparm Ltd	Maes-y-coed Rd, Cardiff, CF14 4XR	Direct	England and Wales	Ordinary	£1 100%	100%
Ultraeuropa SP. z o.o.	Maes-y-coed Rd, Cardiff, CF14 4XR	Indirect	Poland	Ordinary	£1 100%	100%

Notes to the Company's Financial Statements

39. Investments

	€000
Cost	
At beginning of financial year	101,009
Additions	(26)
Acquisition	17,546
At end of financial year	118,529
Net book value	
At 29 June 2019	118,529
At 30 June 2018	101,009

The additions relate to share option credit of €26,000 (2018: €182,000 charge) passed down to individual subsidiaries. The acquisition amount relates to the initial consideration paid and deferred consideration payable for the acquisition of Ultrapharm Limited.

40. Deferred Tax

Recognised deferred tax assets and liabilities:

	Assets		Liabilities	
	2019 €000	2018 €000	2019 €000	2018 €000
Employee share Scheme charges	574	712	-	-
Interest rate swaps	-	-	(30)	(95)
Discounting of deferred consideration	-	-	(30)	-
Short-term temporary differences	5	-	-	-
Tax assets/(liabilities)	579	712	(60)	(95)
Net tax assets	519	617		

The deferred tax asset at 29 June 2019 has been calculated based on the rate of 17% substantively enacted at the balance sheet date.

Movement in Deferred Tax during the Year

	30 June 2018 €000	Acquired €000	Recognised in income €000	Recognised in equity €000	29 June 2019 €000
Employee share Scheme	712	-	118	(256)	574
Interest rate swaps	(95)	-	65	-	(30)
Discounting of deferred consideration	-	(54)	24	-	(30)
Foreign exchange contracts	-	-	5	-	5
	617	(54)	212	(256)	519

Movement in Deferred Tax during the Prior Year

	1 July 2017 €000	Recognised in income €000	Recognised in equity €000	30 June 2018 €000
Employee share Scheme	460	194	58	712
Interest rate swaps	(71)	(24)	-	(95)
Foreign exchange contracts	(25)	25	-	-
	364	195	58	617

Notes to the Company's Financial Statements

41. Debtors

	2019 £000	2018 £000
Amounts owed by Group undertakings	45,533	42,907
Other taxation	95	63
Prepayments and accrued income	265	76
	45,893	43,046

Amounts due from Group undertakings are classified as current as they are repayable on demand.

42. Forward Foreign Exchange Contracts at Fair Value

There were no forward currency contracts in place in the Company at the year end. At the year ended 30 June 2018 the Company had entered into a number of forward foreign exchange contracts to minimise the impact of fluctuations in exchange rates. A credit of £49,000 was included in administrative expenses for the prior year period reflecting changes in their fair value.

43. Creditors: Amounts Falling Due Within One Year

	2019 £000	Restated 2018 £000
Trade creditors	146	111
Amounts due to Group undertakings	20	20
Corporation tax	62	106
Other taxes and social security	156	151
Accruals and deferred income	5,020	6,398
Deferred consideration ¹	1,000	-
	6,404	6,786

¹ Deferred consideration is the consideration payable for the Ultrapharm acquisition payable in annual instalments to 30 June 2021.

Amounts due to Group undertakings are classified as current as they are repayable on demand.

In the prior year accounts, the combined Revolving Credit facility and transaction costs of £24,685,000 were disclosed within the above table as "Amounts Falling Due Within One Year". Refer to "Presentation of Financial Statements – Basis of Preparation" on page 54 for more detail.

Other Financial Liabilities – Fair Value Interest Rate Swaps

The Company has two interest rate swaps. A five-year swap from 3 July 2017 with a coverage of £20.0 million fixed at a rate of 0.455% and a three-year swap from 28 March 2019 with a coverage of £5.0 million fixed at a rate of 1.002%. There was 53% coverage at year end (2018: 80%).

A charge of £382,000 (2018: £143,000 credit) is shown in finance expenses (2018: income) for the year reflecting changes in the fair values of interest rate swaps. The fair values are liabilities as a result of the current low levels of base and LIBOR interest rates.

44. Interest-bearing Loans and Borrowings

This Note provides information about the contractual terms and repayment schedule of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate risk, see Note 23.

2019	Currency	Margin	Frequency of repayments	Year of maturity	Facility £000	Total £000	Current £000	Non-current £000
Revolving credit	GBP	1.5%/LIBOR	Varies	2023	£55,000	47,144	-	47,144
Unamortised transaction costs						(248)	-	(248)
						46,896	-	46,896

Restated 2018	Currency	Margin	Frequency of repayments	Year of maturity	Facility £000	Total £000	Current £000	Non-current £000
Revolving credit	GBP	1.3%/LIBOR	Varies	2023	£45,000	25,000	-	25,000
Unamortised transaction costs						(315)	-	(315)
						24,685	-	24,685

Notes to the Company's Financial Statements

44. Interest-bearing Loans and Borrowings (continued)

HSBC Bank Plc, HSBC Asset Finance (UK) Ltd, HSBC Equipment Finance (UK) Ltd and HSBC Corporate Trustee Company (UK) Limited have debentures incorporating fixed and floating charges over the undertaking and all property and assets including goodwill, book debts, uncalled capital, buildings, fixtures, fixed plant and machinery.

In the prior year accounts, the combined Revolving Credit facility and transaction costs of £24,685,000 were disclosed as "Current". Refer to "Presentation of Financial Statements – Basis of Preparation" on page 54 for more detail.

45. Creditors: Amounts Falling Due After More Than One Year

	2019 £000	2018 £000
Deferred consideration	1,824	-
Deferred tax liability	60	95
	1,884	95

Deferred consideration is the consideration payable for the Ultrapharm acquisition payable in annual instalments to 30 June 2021.

46. Called Up Share Capital

Note 25 in the Group Financial Statements gives details of called up share capital.

47. Capital and Reserves

The reconciliation of the movement in capital and reserves is shown as a primary statement in the Company's Financial Statements: Company Statement of Changes in Equity on page 52 with definition details in Note 24 to the consolidated Financial Statements.

48. Contingent Liabilities

The Company has guaranteed the overdrafts of its subsidiaries; there was a net cash position at the year end of £12,358,000 (2018: £9,363,000).

49. Related Party Disclosures

Note 29 in the Group's Financial Statements gives details of related party transactions.

50. Financial Risk Management

The Company's policies on the management of liquidity, credit and interest rate risks are managed at a Group level and are set out in Note 23 in the Group's Financial Statements and also referred to in the Strategic Report.