Notes to the Consolidated Financial Statements
(forming part of the Financial Statements)

Presentation of Financial Statements

Basis of Preparation

These accounts cover the 52-week period ended 27 June 2020 (prior financial year is the 52-week period ended 29 June 2019). The Group Financial Statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The Company is a public company which is incorporated, domiciled and registered in England and Wales.

The Group Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), IFRS IC interpretations and the Companies Act 2006. The Company Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union ("Adopted IFRSs"), IFRS IC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS; these are presented on pages 100 to 108.

Going Concern and Impact of Covid-19

In the current climate where there is uncertainty around the impact of Covid-19, relevant judgements and assumptions have to be made. This will include the impact of Covid-19 on the economy, the extent and duration of social distancing measures on demand and the workforce. The health and safety of our employees is a top priority and UK Government guidelines are being adhered to with regards to social distancing and working remotely. The Group has a resilient supply chain and production network and is working closely with all its major customers to navigate through the challenging trading environment. As a manufacturer of a wide range of baked goods the Covid-19 impact has varied considerably between businesses, there have been significant growth in demand in some areas of retail, reduction of demand in foodservice and we have experienced varying degrees of impact on demand across a range of product areas (in retail and foodservice). Demand recovery is anticipated across businesses at different rates. When considering going concern, judgement has to be made as to the extent of disruption and the ongoing challenges. Forecasts have been built on a bottom-up basis and stress tested to prepare an approved budget used as a basis for reviewing going concern. Having reviewed the Group's short- and medium-term plans and available financial facilities, the Board has reasonable expectations that the Group has adequate resources to continue in operational existence for the next 12 months and the foreseeable future.

The Group meets its funding requirements through internal cash generation and bank credit facilities, which are committed until February 2023. Committed banking facilities are £55.0 million of which £36.2 million was drawn at the year end with a further accordion available of £35.0 million. The Group's forecasts and projections, taking account of reasonable possible changes in trading performance, including the possible effect of the UK's decision to withdraw from the EU, show that the Group will be able to operate comfortably within its current bank facilities. The Group has a relatively conservative level of debt to earnings.

The Board reviews the Group's covenants on a regular basis to ensure that it has adequate facilities to cover its trading and banking requirements with an appropriate level of headroom. The forecasts are based on management's best estimates of future trading. There has been no breach of covenants during the year and none expected during the next 12 months. All covenant tests were passed at the year end.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board continues to adopt the Going Concern basis in preparing the Financial Statements for both the Group and the Parent Company. The Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments and pension scheme assets.

Critical Accounting Estimates and Judgements

Judgements

In the course of preparing the Financial Statements, judgements which do not involve estimation have been applied. The key accounting judgements, without estimation are as follows:

- **Basis of Consolidation**
  Lightbody Stretz Limited, which is 50% owned by the Group is consolidated into the Group accounts as a subsidiary with a corresponding non-controlling interest on the basis that the Group has the controlling interest. Control arises by virtue of the fact that Lightbody Group Limited, a wholly owned subsidiary of Finsbury Food Group, has a majority of voting rights arising from an agreement between Lightbody Group Limited and Philippe Stretz, the owner of the remaining 50%.

- **Classification of Items as Significant Non-Recurring**
  The Group presents certain items as non-recurring and significant. These relate to items which, in management's judgement, need to be disclosed by virtue of their size or incidence in order to obtain a more meaningful understanding of the financial information. They reflect costs that will not be repeated and therefore do not reflect ongoing trading of business which is more meaningful to users. Group management exercises judgement in assessing each significant and non-recurring item and analysing whether the treatment of these items is consistent with accounting policies and practice. The FRC has issued guidance specifically in light of the impact of Covid-19 on business performance; this guidance will be considered when making a judgement on classifying material items that need separate disclosure. The main points to consider when identifying and disclosing non-recurring and significant items are:

  – Not to describe items as non-recurring if expected in the future;
  – Not to disclose (sunk, stranded or excess) costs solely as a result of the elimination of revenue stream as a result of Covid-19; and
  – Not to identify incremental costs without the associated incremental revenue.

No other significant judgements have been made in the process of applying the Group's accounting policies, other than those involving estimations.

Notes to the Consolidated Financial Statements/Continued

Estimates

The Group is required to make estimates and assumptions concerning the future. These are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results, particularly in the challenging environment with the uncertainty around the impact of Covid-19, the extent and duration of social distancing measures and the impact on the economy. Accounting estimates have been required for the production of these Financial Statements. The following are those that are deemed to require the most complex assumptions about matters that have the most significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- **Defined Benefit Pension Scheme Valuation**
  The Group has one legacy defined benefit pension scheme that was closed to future accrual in May 2010. The net deficit is the difference between the plan assets and plan liabilities at the period end date. The valuation of the assets and liabilities is based on a number of assumptions. The assets are based on market value at the period end date, the liabilities are based on actuarial assumptions such as discount, inflation and mortality rates. The valuation is sensitive to changes in actuarial assumptions, whereby modest changes can have a material impact on the valuation. The risks include economic risks (such as interest rate risk and inflation risk) and demographic risks (for example members living longer than expected). The Group accounts for defined benefit pension based on advice provided by the Scheme's actuary in accordance with IAS 19 (Revised) 'Employee Benefits', with independent actuaries being used to calculate the costs, assets and liabilities to be recognised in relation to the scheme. The present value of the defined benefit obligation, the current service cost and past service costs are calculated by these actuaries using the projected unit credit method; further detail can be found in Note 14. The valuation is prepared on a consistent basis and the assumptions are compared to prior periods and market conditions. The assumptions are audited annually by a team of technical experts to assess whether the assumptions used are within an acceptable range.

- **Acquisition**
  A team of independent advisors are used throughout the acquisition process. External advisers are appointed to carry out specific extensive financial modelling work, legal and tax due diligence. An extensive valuation model provided by professional advisers is used in the calculation of the fair value of intangible assets. The assumptions are audited to assess whether the assumptions used are reasonable.

- **Investments (Including Goodwill and Intangibles)**
  The Group holds goodwill and intangibles and the Parent Company holds investments in the respective balance sheets. The carrying values are tested for impairment on an annual basis (more frequently if there are indications of impairment due to changes in market environment or changes that may affect the carrying value). There is a risk that an impairment may not be correctly identified.

- **Impairment**
  Detailed impairment models are prepared for each cash generating unit, detailed budgets and strategic forecasts are used as a basis for the modelling. Budgets and forecasts are sense checked during various rounds of internal management reviews. Sensitivities are applied to the discount rates used and the assumptions and results are reviewed by the Audit Committee and audited annually by external auditors. Impairment testing involves significant judgement as to whether the carrying value of each asset can be supported by the net present value of estimated future cash flows derived from such asset using cash flow projections which have been discounted at an appropriate rate. The key areas are:

  – Discount rates;
  – Future revenue and costs; and
  – Long term growth rates.

  The impact of the Covid-19 pandemic has added a further level of complication and challenge due to the uncertainty of economic recovery and social distancing timeframes. Detailed bottom-up budgets have been prepared at business level and sensitivities applied; more complex assumptions had to be made on recovery rates of demand, adding more uncertainty into modelling than previous years.

  Further detail can be found under the significant accounting policy for intangible assets and goodwill and in Note 10.

- **Provisions**
  The Group recognises provisions where an obligation exists at the period end date and a reliable estimate can be made. Provisions relating to the exit of the Grain D'Or leased site relate to property costs. The marketing of the newly refurbished properties is ongoing. A smaller provision exists for pension augmentation and relates to a contractual liability for pension augmentation that has been valued by the pension scheme actuaries. There is no expectation of material bad debts resulting from the Covid-19 impact on the economy, we are in close contact with customers to manage recoveries. See Note 21 for further details.

- **Taxation**
  Significant judgement is exercised by management in determining the amounts to be provided for both current and deferred tax. The final tax determination of certain transactions is often uncertain and may not be known for some time in the future. The appointment of external tax advisers to calculate the provisions during the year end process will focus expertise in this area and provide an independent technical interface with the auditors. The tax position is reviewed and assumptions are challenged by the external auditors and the actual tax charge is clearly reconciled to the theoretical tax charge in the Annual Report disclosures to ensure that variances are visible and understood. 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. The deferred tax asset recognised for losses relates to acquired businesses. Based on current and forecast levels of profitability, the losses are expected to be utilised within 3 years.

Notes to the Consolidated Financial Statements/Continued

1. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated Financial Statements, except as explained in the basis of preparation, which addresses any changes in accounting policies resulting from new or revised standards.

Basis of Consolidation

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration the potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The Financial Statements of subsidiaries are included in the consolidated Financial Statements from the date that control commences until the date that control ceases. The accounting policies of new subsidiaries are changed when necessary to align them with the policies adopted by the Group. Intra-group balances and transactions are eliminated in preparing the consolidated Financial Statements.

Lightbody Stretz Limited which is 50% owned by the Group has been consolidated into the Group accounts as a subsidiary with a corresponding non-controlling interest on the basis that the Group has the controlling interest. Control arises by virtue of the fact that Lightbody Group Limited, a wholly owned subsidiary of Finsbury Food Group, has a majority of voting rights arising from an agreement between Lightbody Group Limited and Philippe Stretz, the owner of the remaining 50%.

New and Upcoming Standards

The following new standards, new interpretations and amendments to standards and interpretations are applicable for the first time for the financial year ended 27 June 2020.

- IFRS 16 "Leases" (effective 1 January 2019);
- Amendments to IFRS 9 – Financial Instruments on Prepayment Features with Negative Compensation (effective 1 January 2019);
- Amendment IAS 28 "Investments in associates" (effective 1 January 2019);
- Amendments to IAS 19, "Employee benefits' (effective 1 January 2019); and
- Annual improvements to IFRS Standards 2015-2017 Cycle (effective 1 January 2019).

With the exception of IFRS 16 "Leases", none of the amendments to the above standards had a material impact on the Financial Statements.

This is the first full year set of the Group's Financial Statements in which IFRS 16 has been applied. The Group has adopted IFRS 16 from 30 June 2019 using the modified retrospective approach, comparatives have not been restated. The reclassifications and adjustments from the new leasing rules are therefore recognised in the opening Consolidated Statement of Financial Position on 30 June 2019.

On transition the Group recognised a right of use lease asset of £16.3 million, being £15.0 million created from assets previously treated as operating leases under IAS 17 and £1.3 million relating to amounts transferred into right of use asset category which were previously treated as a finance lease under IAS 17. A lease liability of £15.8 million has been recognised on transition, being £15.0 million created from leases previously treated as operating leases Under IAS 17 and £0.8 million relating to amounts transferred into right of use asset category which were previously treated as a finance lease under IAS 17.

The impact on the Group's full year results are detailed in note 11. The impact of first time adoption of IFRS 16 are summarised as follows:

Performance measures impacted by IFRS 16	**£m**
EBITDA	+£1.8
Group operating profit	+£0.1
Group profit before taxation	(£0.1)
Basic EPS	(£0.1)
Net debt as at 27 June 2020	+£11.8m
Assets	+£9.4m

There are a number of new standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Group. The future introduction of these standards is not expected to have a material impact on the Financial Statements of the Group.

- Amendments to IFRS 3 – Business Combinations (effective 1 January 2020);
- Amendments to IAS 1 – Presentation of Financial Statements on classification of liabilities (effective 1 January 2022);
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform (effective 1 January 2020); and
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (effective 1 January 2019).

Work will continue in the new financial year to assess the impact of the new standards and interpretations on the Group's Financial Statements.

Business Combinations

The acquisition method of accounting is used in accounting for the acquisition of businesses. In accordance with IFRS 3 Business Combinations, the assets and liabilities of the acquired entity are measured at fair value. When the initial accounting for a business combination is determined provisionally, any adjustments to the provisional values allocated are made within twelve months of the acquisition date and are affected from the date of acquisition.

Notes to the Consolidated Financial Statements/Continued

1. Significant Accounting Policies/Continued

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.

Derivative Financial Instruments

The Group has derivative financial instruments in respect of interest rate swaps and foreign exchange hedges. The Group does not hold derivative financial instruments for trading purposes. The existing interest rate swaps and foreign exchange hedges used by the Group while they function as hedges, do not meet the criteria for hedge accounting set out by IFRS 9, and have thus been treated as financial assets and liabilities which are carried at their fair value in the Consolidated Statement of Financial Position. 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.

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 Receivables

The value of trade and other receivables is the amount that would be received if the receivable was paid on the period end date which is a close approximation to amortised cost.

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.

Property, Plant and Equipment

Recognition and Measurement

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 direct 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

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	2%-20%	Plant and equipment	10%-33%
Leasehold property	Up to the remaining life of the lease	Assets under construction	nil
Fixtures and fittings	10%-33%	Motor vehicles	25%-33%

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

Notes to the Consolidated Financial Statements/Continued

1. Significant Accounting Policies/Continued

Leases

The Company leases various land and buildings, fork lift trucks and equipment. Rental contracts are typically made for fixed periods of between two months and eighteen years but may have extension options.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the company is a lessee and for which it has major leases, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

Leased assets may not be used as security for borrowing purposes. Until the 2019 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 30 January 2019, leases are recognised as a right of use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the company under residual value guarantees;
- The exercise price of a purchase option if the company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease.

If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right of use asset in a similar economic environment with similar terms, security and conditions.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right of use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right of use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Right of use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the company is reasonably certain to exercise a purchase option, the right of use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Low-value assets comprise small items of warehouse equipment and office equipment.

As explained in notes 1 and 11, the company has changed its accounting policy for leases where the company is the lessee to comply with IFRS 16. The impact of the change is explained in Note 11.

IFRS 16 Leases sets out the principle for the recognition, measurement, presentation and disclosure of leases for both lessee and lessor. It eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model where the lessee is required to recognise assets and liabilities for all material leases that have a term greater than a year.

The Group has adopted IFRS 16 Leases using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 Leases was recognised as an adjustment to the opening balance of retained earnings at 29 June 2019 with no restatement of comparative information.

On adoption of IFRS 16 Leases, the Group recognised liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Groups' incremental borrowing rate as of 29 June 2019. The weighted average incremental borrowing rate applied is 2.21%.

Notes to the Consolidated Financial Statements/Continued

1. Significant Accounting Policies/Continued

In applying IFRS 16 Leases for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate for portfolios of leases with reasonably similar characteristics;
- Accounting for low value (less than $5,000) and certain leases with a remaining lease term of less than 12 months as at 29 June 2019 on straight-line basis as an expense without recognising a right of use asset or a lease liability; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Under IFRS 16 leases excluding low value and those with a remaining term of less than 12 months as at 29 June 2019 are recognised in the opening Consolidated Statement of Financial Position on 30 June 2019. Under IFRS 16 the previous leases charge has been replaced by the depreciation on the right of use asset and interest on the lease liability.

Prior to this change, leases of property, plant and equipment where the company, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in creditors: amounts falling due within 12 months and the long-term component was included in creditors: amounts falling due after more than one year.

Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there was no reasonable certainty that the company would obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the company as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

Intangible Assets and Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. Intangible assets are capitalised separately from goodwill as part of a business combination, only if the fair value can be measured reliably on initial recognition and if the future economic benefits are expected to flow to the Group. All intangible assets recognised are considered to have finite lives and are amortised on a straight-line basis over their estimated useful economic lives that range from 15 to 20 years. Goodwill arises when the fair value of the consideration for the business exceeds the fair value of the net assets acquired. Where the excess is negative (negative goodwill), the amount is taken to retained earnings. Goodwill is capitalised and subject to impairment reviews both annually and where there are indications that the carrying value may not be recoverable.

Impairment

The carrying amounts of the Group's intangible assets and goodwill are reviewed at each period end date to determine whether there is an indication of impairment. Intangible assets and goodwill are considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill and intangible assets that have an indefinite useful life, the recoverable amount is estimated at each period end date.

An impairment loss would be recognised whenever the carrying amount of an intangible asset, goodwill or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Consolidated Statement of Comprehensive Income.

Calculation of Recoverable Amount

The recoverable amount is the greater of the asset's fair value less costs to sell and its value in use. In assessing an assets' value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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.

Employee Benefits

Defined Benefit Plans

Memory Lane Cakes Ltd operates a defined benefit pension scheme and the pension costs are charged to the Consolidated Statement of Comprehensive Income in accordance with IAS 19 (revised), with current and past service cost being recognised as an administrative expense, interest on assets and liabilities is shown as finance income or a finance cost in the Consolidated Statement of Comprehensive Income. The remeasurements are recognised in full in Other Comprehensive Income.

Defined Contribution Plans

The costs of contributing to defined contribution and personal pension schemes are charged to the Consolidated Statement of Comprehensive Income as an administrative expense in the period to which they relate.

Notes to the Consolidated Financial Statements/Continued

1. Significant Accounting Policies/Continued

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.

Revenue
Revenue is measured at the fair value of consideration received or receivable excluding value added tax, trade discounts, transactions with or between subsidiaries and less the cost of price promotions and sales related rebates known as over-riders. Revenue represents the amounts derived from the sale of bakery products.

Revenue is recognised when the single performance obligation has been satisfied and this is when goods (bakery products) are transferred to the customer which takes place upon delivery of agreed goods to the customer.

Delivery occurs when the goods have been despatched to an agreed specific location or have been directly receipted by the customer and removed from an operational site by them. At this stage the risks of obsolescence and loss have been transferred to the customer, as it is deemed that the customer has accepted the products in accordance with the specific sales agreement for those goods.

Price promotions, sales related rebates and returns are provided for as a reduction to revenue recognised based on management's best estimate of the amount required to meet claims by customers, taking into account contractual and legal obligations which are typically known, historical trends and accumulated past experience.

A receivable is recognised on the delivery of goods as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

As the business evolves, the Group will continue to review transactions with customers to ensure compliance with IFRS 15: Revenue from Contracts with Customers.

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 Group's Board of Directors. The Group's Chief Operating Decision Maker is considered to be the Board.

Licence Fees
Payments made for licence fee charges are recognised under cost of sales in the Consolidated Statement of Comprehensive Income in the period to which they relate. Any charges relating to future years are deferred and recognised in the Consolidated Statement of Comprehensive Income under cost of sales over the life of the contract.

Finance Income and Cost
Finance costs comprise loan interest payable, interest payable and finance charges on lease liabilities recognised using the effective interest method, unwinding of the discount on provisions and deferred consideration, interest on the net defined benefit pension plan position and adverse changes in the fair value of interest rate swaps.

Finance income comprises interest receivable on funds invested and favourable changes in the fair value of interest rate swaps. Interest income is recognised in Consolidated Statement of Comprehensive Income as it accrues, using the effective interest method.

Taxation
Tax on the profit or loss for the year 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 on the taxable income 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.

Research and Development Expenditure
The 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.

Government Grants
Furlough grants claimed to cover employee costs who have been furloughed during the pandemic are recognised in the Consolidated Statement of Comprehensive Income in the same period in which the related expense occurred. Related costs and income have been included in administrative expenses.

Notes to the Consolidated Financial Statements/Continued

2. Revenue and Segment Information

Operating segments are identified on the basis of the internal reporting and decision making. The Group's Chief Operating Decision Maker is deemed to be the Board as it is primarily responsible for the allocation of resources to segments and the assessment of performance by segment. The Board assesses profit performance principally through adjusted profit measures consistent with those disclosed in the Annual Report and Accounts.

The UK Bakery segment manufactures and sells bakery products to UK grocery and food service sectors. It comprises six subsidiaries all of which manufacture and supply food products through the channels described above. These subsidiaries have been aggregated into one reportable segment as they share similar economic characteristics. The economic indicators considered are the nature of the products and production process, the type and class of customer, the method of distribution and the regulatory environment.

The Overseas segment procures and sells bakery products to European grocery and food service sectors. It comprises Lightbody Europe and Ultraeuropa. Ultraeuropa has manufacturing facilities in Poland where it manufactures and sells Free From bakery products into the European markets.

The Company acquired Ultrapharm on 3 September 2018, the prior year financial results include those relating to the acquired business in UK Bakery and Overseas. For detail on the acquisition see Note 30.

Revenue	UK bakery		Overseas		Total Group	
52 weeks to 27 June 2020 and 52 weeks to 29 June 2019	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000
Total	**271,414**	278,533	**34,934**	36,748	**306,348**	315,281

Reportable Segments	52 weeks to 27 June 2020 £000	52 weeks to 29 June 2019 £000
Revenue UK bakery	**271,414**	278,533
Revenue Overseas	**34,934**	36,748
Total revenue	**306,348**	315,281
Adjusted operating profit UK bakery	**13,162**	14,180
Adjusted operating profit Overseas	**1,777**	2,653
Total adjusted operating profit	**14,939**	16,833
Significant non-recurring impairment	**(8,737)**	-
Significant non-recurring other	**(1,594)**	(1,200)
Defined benefit pension scheme	**200**	(162)
Fair value foreign exchange contracts	**(73)**	(178)
Operating profit	**4,735**	15,293
Finance income	**61**	77
Finance expense	**(1,928)**	(1,794)
Net finance cost	**(1,867)**	(1,717)
Profit before taxation	**2,868**	13,576
Taxation	**(2,761)**	(3,283)
Profit for the financial year	**107**	10,293

The Group has three customers (2019: three) which individually account for 10 per cent or more of the Group's total revenue. These customers individually account for 21 per cent, 12 per cent and 10 per cent. In the prior year these same three customers accounted for 20 per cent, 13 per cent and 10 per cent of the revenue in the 52 weeks to 29 June 2019. In addition to the Europe sales disclosed in Reportable Segments, the Group also made sales to European markets through UK-based organisations.

Notes to the Consolidated Financial Statements/Continued

3. Administrative Expenses and Auditors' Remuneration

Included in profit are the following:

	2020 £000	2019 £000
Amortisation of intangibles	**1,734**	1,328
Depreciation of owned tangible assets	**7,656**	7,072
Depreciation on right of use assets	**1,919**	-
Depreciation on assets under finance leases and hire purchase contracts	**-**	294
Impairment of fixed assets	**1,237**	-
Impairment of goodwill	**7,500**	-
Loss on foreign exchange	**213**	166
Variable lease payments	**193**	-
Expenses relating to short-term and low-value leases	**164**	-
Hire of plant and machinery – operating leases	**-**	765
Hire of other assets – operating leases	**-**	806
Movement on fair value of foreign exchange contracts	**73**	178
Research and development	**2,244**	1,987
Share option charges	**145**	697

Depreciation recognised on right of use assets in the year in relation to leases previously recognised as operating leases under IAS 17 upon adoption of IFRS 16 is £1,734,000. The remainder of the deprecation on right of use assets relates to assets previously treated as finance leases under IAS 17.

Auditors' remuneration:

	2020 £000	2019 £000
Audit of these Financial Statements	**50**	60
Audit of the Financial Statements of subsidiaries of the Company	**118**	133
Other services	**20**	-

Other services relate to assistance with non-UK VAT registrations.

4. Significant Non-recurring Items

The Group presents certain items as significant and non-recurring. These relate to items which, in management's judgement, need to be disclosed by virtue of their size or incidence in order to obtain a more meaningful understanding of the financial information. They reflect costs that will not be repeated and therefore do not reflect ongoing trading of business which is most meaningful to users.

Included within significant non-recurring items shown in the table on page 36 of the Financial Review section are the following costs:

	2020 £000	2019 £000
Commissioning costs	**257**	-
Impairment of goodwill (Refer to Note 10)	**7,500**	-
Impairment of fixed assets (Refer to Note 12)	**1,237**	-
Other reorganisation people costs	**1,337**	823
Site closures – property, leases and contract costs	**-**	(152)
Acquisition related costs	**-**	529
	10,331	1,200

Commissioning costs relate to the associated commissioning costs of a new bakery in Poland and have been classed as significant non-recurring due to their nature. Reorganisation costs relate to the strategic reorganisation of the Group following the varying degrees of the impact of the pandemic on the businesses within the Group.

There has been an impairment of the goodwill relating to the Ultrapharm acquisition, which based on current performance was deemed to be overvalued, note 10 provides further detail.

There has been a fixed asset impairment of assets held at the Cardiff site; this reflects the specific writing down of an asset where there were no firm plans to utilise the asset given the outlook of no sales and a market recovering from a global pandemic.

Notes to the Consolidated Financial Statements/Continued

5. Staff Numbers and Costs

The monthly average number of persons employed by the Group including Directors and excluding agency staff during the year, analysed by category, was as follows:

	Number of employees 2020	2019
Production	**2,654**	2,541
Selling and distribution	**117**	145
Administration, technical, new product development	**406**	376
	3,177	3,062

The aggregate payroll costs of these persons were as follows:

	2020 £000	2019 £000
Wages and salaries	**77,913**	72,937
Share option charges	**145**	697
Social security costs	**6,987**	6,828
Charge in respect of defined benefit plans	**200**	200
Charge in respect of defined contribution pension plans	**2,099**	1,681
	87,344	82,343

6. Remuneration of Directors

	2020 £000	2019 £000
Fees	**234**	310
Executive salaries	**690**	738
	924	1,048

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid Director was £404,000 (2019: £432,000), there were no Company pension contributions made to a defined contribution scheme during the current or prior year. No bonuses were paid in the current or prior year.

There were 1,108,881 share options exercised in the period by the highest paid director.

There were no retirement benefits accruing to directors during the current or previous year.

The emoluments **paid** to Directors were as follows:

	Fees £000	Salary £000	Benefits £000	Annual bonus £000	Year ended 27 June 2020 £000	Year ended 29 June 2019 £000
P Baker	79	-	-	-	**79**	85
R Beveridge	51	-	-	-	**51**	56
S A Boyd - paid	-	276	10	-	**286**	306
J G Duffy – paid	-	394	10	-	**404**	432
R P E Duignan	53	-	-	-	**53**	57
M J Millard	51	-	-	-	**51**	53
Z Morgan	-	-	-	-	**-**	59
	234	670	20	-	**924**	1,048

During the year 602,819 shares were issued to J G Duffy (2019: nil) and 382,075 shares were issued to S A Boyd (2019: nil) in settlement of the exercise of share options. During the year awards over 2,007,470 shares under the long-term incentive plan (LTIP) were granted to Directors in the form of nil cost options (2019: 585,409). The vesting of the 1,063,325 awards is conditional upon performance conditions over a three-year period commencing 30 June 2019 and are subject to a further two-year holding period. The vesting of 944,145 awards is conditional on employment with no holding period.

Notes to the Consolidated Financial Statements/Continued

6. Remuneration of Directors/Continued

Directors' rights to subscribe for shares in the Company are listed below:

	Number of options at 27 June 2020	Number of options at 29 June 2019	Exercise price	Earliest exercise date	Exercise expiry date
S A Boyd	**-**	702,825	nil	01/07/2019	26/06/2025
S A Boyd	**476,364**	476,364	nil	01/07/2020	04/12/2025
S A Boyd	**-**	315,269	nil	02/07/2022	26/10/2027
S A Boyd	**241,147**	241,147	nil	07/07/2023	21/01/2029
S A Boyd	**395,365**	-	nil	28/10/2022	28/10/2029
S A Boyd	**438,015**	-	nil	30/06/2024	28/10/2029
J G Duffy	**-**	1,108,881	nil	01/07/2019	26/06/2025
J G Duffy	**655,614**	655,614	nil	01/07/2020	04/12/2025
J G Duffy	**-**	438,200	nil	30/06/2021	29/09/2026
J G Duffy	**344,262**	344,262	nil	07/07/2023	21/01/2029
J G Duffy	**548,780**	-	nil	28/10/2022	28/10/2029
J G Duffy	**625,310**	-	nil	30/06/2024	28/10/2029
	3,724,857	4,282,562			

The mid-market price of the ordinary shares on 27 June 2020 was 59.3p (2019: 67.0p) and the range during the 52-week period to 27 June 2020 was 53.0p to 104.0p (2019: 60.0p to 127.0p).

7. Finance Income and Cost

Recognised in the Consolidated Statement of Comprehensive Income

	2020 £000	2019 £000
Finance income		
Interest on interest rate swap agreements	**44**	60
Bank interest receivable	**17**	17
Total finance income	**61**	77
Finance cost		
Interest on net pension position	**(256)**	(282)
Change in fair value of interest rate swaps	**(386)**	(382)
Bank interest payable	**(999)**	(991)
Unwinding of discount on deferred consideration	**(14)**	(139)
Lease liabilities	**(273)**	-
Total finance cost	**(1,928)**	(1,794)

Notes to the Consolidated Financial Statements/Continued

8. Taxation

Recognised in the Consolidated Statement of Comprehensive Income

	2020 £000	2019 £000
Current tax		
Current year	**2,762**	2,969
Adjustments for prior years	**6**	194
Total current tax	**2,768**	3,163
Deferred tax		
Origination and reversal of temporary differences	**130**	136
Rate change	**(222)**	-
Adjustments for prior years	**85**	(16)
Total deferred tax	**(7)**	120
Total tax expense	**2,761**	3,283

Reconciliation of Effective Tax Rate

The weighted average hybrid rate of UK, Polish and French tax is 22.6% (2019: 21.4%). The tax assessed for the period is higher (2019: higher) than the hybrid rate of UK and French tax. The UK corporation tax rate for the period is 19.0% (2019: 19.0 %). The differences are explained below:

	2020 £000	2019 £000
Profit before taxation	**2,868**	13,576
Non-deductible intangible impairment	**7,500**	-
	10,368	13,576
Tax using the UK corporation tax rate of 19.00%, (2019: 19.00%)	**1,970**	2,579
Overseas profits charged at different taxation rate	**439**	481
Non-deductible expenses and timing differences	**479**	195
Restatement of opening net deferred tax due to rate change and differences in rates	**(218)**	(60)
R&D uplift current year	**-**	(90)
Adjustments to tax charge in respect of prior periods	**91**	178
Total tax expense	**2,761**	3,283

The UK corporation tax rate reductions from 20% to 19% from 1 April 2017 and 18% from 1 April 2020 were substantively enacted on 26 October 2015. An additional reduction to 17% from 1 April 2020 was substantively enacted on 6 September 2016. This was reversed in March 2020 with the UK corporation tax remaining at 19%. The deferred tax assets and liabilities at 27 June 2020 have been calculated based on a rate of 19%.

The adjustment of £91,000 for prior year includes ineligible capital spends offset and disallowable expenses being different to the assumed levels at the time of preparation of the Annual Report.

The Company has an unrecognised deferred tax asset of £182,000 (2019: £163,000) relating to capital losses carried forward. This asset has not been recognised in the Financial Statements as it is not expected that suitable gains will arise in the future in order to utilise the underlying capital losses.

9. Earnings Per Ordinary Share

Basic earnings per share for the period is calculated on the basis of profit for the year after tax, divided by the weighted average number of shares in issue being 127,128,000 (2019: 127,511,000).

Basic diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all potential dilutive ordinary shares. At 27 June 2020, the diluted weighted average number of shares in issue was 130,820,000, (2019: 131,889,000).

An adjusted earnings per share has been calculated to show the trading performance of the Group. These adjusted earnings per share exclude:

- Reorganisation and other significant non-recurring items;
- IFRS 9 'Financial Instruments: Recognition and Measurement' fair value adjustment relating to the Group's interest rate swaps and foreign exchange contracts;
- IAS 19 (revised) 'Accounting for retirement benefits' relating to net income;
- The taxation effect at the appropriate rate on adjustments ; and
- Amortisation of intangible assets.

Notes to the Consolidated Financial Statements/Continued

9. Earnings Per Ordinary Share/Continued

	52 weeks to 27 June 2020 £000	52 weeks to 29 June 2019 £000
Profit		
(Loss)/profit attributable to equity holders of Company (basic)	**(759)**	9,287
Significant non-recurring and other items	**10,223**	2,021
Intangible amortisation net of deferred tax	**574**	564
Numerator for adjusted earnings per share calculation (adjusted basic)	**10,038**	11,872

	Basic '000	Diluted '000	Basic '000	Diluted '000
Shares				
Weighted average number of ordinary shares in issue during the period	127,128	127,128	127,511	127,511
Dilutive effect of share options	–	3,692	–	4,378
	127,128	130,820	127,511	131,889

	Basic pence	Diluted pence	Basic pence	Diluted pence
Earnings per share (pence per share)				
Basic and diluted	(0.6)	(0.6)	7.3	7.0
Adjusted basic and adjusted diluted	7.9	7.7	9.3	9.0

Significant non-recurring and other items net of taxation are tabled in the Strategic Report on page 36 and comprise: impairment of goodwill and fixed assets £8,502,000, (2019: nil), significant non-recurring charges £1,291,000 (2019: £1,072,000), defined benefit pension scheme charge £45,000 (2019: charge £369,000), fair value of interest rate swaps, foreign exchange contracts charge £372,000 (2019: £465,000 charge) and the unwinding of deferred consideration discounting charge £13,000 (2019: charge £115,000).

10. Intangibles

Intangible assets comprise customer relationships, brands and goodwill.

	Goodwill £000	Business systems £000	Brands and licences £000	Customer relationships £000	Total £000
Cost at 30 June 2018	73,458	7,569	3,683	5,909	90,619
Acquired	11,546	–	–	1,721	13,267
Additions	–	2,412	–	–	2,412
Cost at 29 June 2019	85,004	9,981	3,683	7,630	106,298
Additions	–	196	–	–	196
Cost at 27 June 2020	**85,004**	**10,177**	**3,683**	**7,630**	**106,494**
Accumulated amortisation at 30 June 2018	(4,290)	(178)	(1,359)	(1,479)	(7,306)
Charge for the year	–	(648)	(143)	(537)	(1,328)
Accumulated amortisation at 29 June 2019	(4,290)	(826)	(1,502)	(2,016)	(8,634)
Charge for the year	–	(1,025)	(143)	(566)	(1,734)
Impairment	(7,500)	–	–	–	(7,500)
Accumulated amortisation at 27 June 2020	**(11,790)**	**(1,851)**	**(1,645)**	**(2,582)**	**(17,868)**
Net book value at 30 June 2018	69,168	7,391	2,324	4,430	83,313
Net book value at 29 June 2019	80,714	9,155	2,181	5,614	97,664
Net book value at 27 June 2020	**73,214**	**8,326**	**2,038**	**5,048**	**88,626**

The customer relationships recognised in the opening costs were purchased as part of the Ultrapharm acquisition in September 2018 and the acquisition of Fletchers Group of Bakeries in October 2014. They are considered to have finite useful lives and are amortised on a straight-line basis over their estimated useful lives of twenty years for brands and between ten and fifteen years for customer relationships. The intangibles were valued using an income approach, using Multi-Period Excess Earnings Method for customer relationships and Relief from Royalty Method for brand valuation. The amortisation of intangibles has been charged to administrative expenses in the Consolidated Statement of Comprehensive Income. The business systems are considered to have finite useful lives and are amortised on a straight-line basis over their estimated useful lives of ten years.

Notes to the Consolidated Financial Statements/Continued

10. Intangibles/Continued

Goodwill has arisen on acquisitions and reflects the future economic benefits arising from assets that are not capable of being identified individually and recognised as separate assets. The goodwill reflects the anticipated profitability and synergistic benefits arising from the enlarged Group structure. The goodwill is the balance of the total consideration less fair value of assets acquired and identified. The carrying value of the goodwill is reviewed annually for impairment. The carrying value of all goodwill has been assessed during the year.

The Group tests goodwill for impairment on an annual basis, or more frequently if there are indications that the goodwill may be impaired. The recoverable amounts of the cash-generating units are determined from value in use calculations. The key assumptions for the value in use calculations are the discount and growth rates used for future cash flows and the anticipated future changes in revenue, direct costs and indirect costs. The assumptions used reflect the past experience of management and future expectations.

There have been major disruptions to markets since March 2020 as a result of the impact of the Covid-19 pandemic. Post Covid-19 consumer spending behaviour and lifestyle choices are an unknown. With knowledge and experience since lockdown a bottom-up full-year 2021 budget and strategic forecast to June 2023 has been compiled.

The forecasts have taken in consideration the following key factors:

1. Covid-19 has had an impact on markets, focus is on a rebuild of the business to a 'new normal' with difficulty in predicting timescale for recovery and the impact of recessionary pressures;
2. Latest market forecast and market research data has been considered when making commercial judgements;
3. Detailed SWOT analysis of all businesses with strategic plan to respond to challenges;
4. Plans to combat inflationary pressures particularly labour costs in UK and Europe;
5. There are ingredient challenges during the lockdown environment, these have been factored into the forecasts;
6. Operating Brilliance Programme will support improved efficiencies and help drive recipe value engineering, plausible improvements have been built in; and
7. Leadership teams strengthened to help realise a step change in growth particularly in the Free From area.

The forecasts covering a three-year period are based on the detailed financial forecasts challenged and approved by management for the next three years. The cashflows beyond this forecast are extrapolated to perpetuity using a 1.1% (2019: 0.5%) growth rate for all of the CGUs. The starting position has been impacted by Covid-19 and growth we believe is relatively prudent when compared to long-term UK GDP, basis, to reflect the uncertainties of forecasting further than three years. Changes in revenue and direct costs in the detailed three-year plan are based on past experience and expectations of future changes in the market to the extent that can be anticipated.

The strategic forecast process commenced in November 2019 to review consumer and competitor insight to prepare the foundations for the financial forecasts; this groundwork was completely overtaken by events surrounding the worldwide pandemic. The recent strategic forecasts were prepared as late as possible in the financial year to allow further insights into the post lockdown environment and the journey to recovery. We have been encouraged by the recovery in the final quarter of the year to 27 June 2020 with revenue trends improving, with April 24% down year on year, May, 19% down and June 14% down.

The revenue growth rate in the strategic forecast combines volume, mix and price of products. An inflation factor has been applied to costs of sales, variable costs and indirect costs and takes into consideration the general rate of inflation, movements in commodities, improvement in efficiencies from capital investment and operations and purchasing initiatives. External market data and trends are considered when predicting growth rates. Compound annual growth rates for revenues for the three-year forecast period range from 3.7% to 14.0%, reflecting the recovery from the lower base year and budget year that have been impacted by the Covid-19 pandemic.

A pre-tax discount rate of 9% (2019: 11%) has been used in these calculations. The discount rate uses weighted average cost of capital which reflects the returns on government bonds and an equity risk premium adjusted specifically for Finsbury plus further risk premiums that consider cash generating unit risk. The Group has considered the economic environment and higher level of return expected by equity holders due to the perceived risk in equity markets when selecting the discount rate. The discount rate has decreased by 2% to take account of the removal of a small company risk premium that had been included in the prior year; the spread of investors and liquidity supports the exclusion of this risk premium. The discount rate used for each cash generating unit has been kept constant as the market risk is deemed not to be materially different between the different segments of the bakery sector, nor over time. When considering the Ultrapharm discount rate a further 0.5% has been added for the overseas risk element.

Notes to the Consolidated Financial Statements/Continued

10. Intangibles/Continued

The table below shows the carrying values of goodwill allocated to cash generating units or groups of cash generating units. When calculating the discount rate that would need to be applied for there to be zero headroom, the discounted cashflows were compared against the carrying amount of goodwill, plant property and equipment and the first-time recognition under IFRS 16 of right of use assets for leases which were previously treated as operating leases under IAS 17. The discount rates are shown in the table below:

	Carrying value of goodwill		Discount rate at which headroom is nil	
	2020 £000	2019 £000	**2020 %**	2019 %
Lightbody of Hamilton	**45,698**	45,698	**20.8**	18.8
Fletchers Bakery	**20,118**	20,118	**12.4**	15.0
Ultrapharm*	**4,046**	11,546	***9.5**	-
Nicholas & Harris	**2,980**	2,980	**51.3**	45.9
Johnstone's Food Service	**372**	372	**92.3**	83.5
	73,214	80,714		

* 9.5% with £7.5 million impairment taken.

Impairment

An impairment charge has been booked against the Ultrapharm cash generating units. The business has proven more immature than expected and additional resource has been invested into both the UK and Polish businesses. We face commercial issues (in part relating to a small warranty claim) now exacerbated by Covid-19 which have adversely affected cashflows and hence valuation. We believe that the Gluten Free sector remains attractive and that performance will meet our expectations over time. The conclusion is that, based on current performance, the business is overvalued. The strategic forecast revenues and profits have been sensitised and a downside forecast has been considered giving reduced cashflow assumptions, which, when compared to the carrying value of assets, has indicated an impairment is necessary. A non-cash impairment of £7.5 million has been recognised in the current year's financial results. The downside forecast has been used as a basis for calculating the impairment charge. Revenue in this forecast is expected to grow over the next three years at an annual growth rate of 10%. Each 1% reduction in the annual growth rate over the three year period, compared to forecast, would have an impact of £260,000 on the impairment charge.

The discount rate at which the headroom is nil for Fletchers Bakery is 12.4%. There are key strategies in place in order to improve the performance of Fletchers. New opportunities are in the later stages of customer negotiations for new products into existing customers. An uplift is expected at Easter which was severely disrupted in 2020 by the pandemic. There are also further opportunities in the new product development pipeline that are expected to be realised in the short term. Sensitivities have been carried out to exclude any growth, which, after returning to pre- Covid-19 level of sales, demonstrates that headroom still exists. It has been concluded that no impairment was necessary on the carrying value of goodwill relating to the Fletchers Bakery at 27 June 2020.

Sensitivity analyses have been carried out by the Directors on the carrying value of all remaining goodwill using pre-tax discount rates up to 12.5% which would not result in an impairment of any cash generating units.

Further sensitivity analysis has been carried out using a range of factors such as growth rate and cost increases. These include:

- If future growth rate assumption of 1.0% was replaced with zero growth rate;
- If future growth rate assumption of 1.0% was replaced with a decline of 1.0%.

There are many uncertainties surrounding the recovery, consumer response, retailer dynamics and inflationary impact. Immediate response has been a series of cost-saving initiatives and the acceleration of operational improvement plans, the strategic responses have been around restructuring capacity, development of supply chain systems to accelerate leveraging group scale and driving growth agenda with customers. Where we have identified market and product challenges that will lead to unacceptable recovery timescales, we have taken the decision to recognise a non-cash impairment.

In addition to the Covid-19 priorities, the Group has a cross-functional team which has prepared a number of strategies to minimise the impact of Brexit. We buy some commodities from Europe. Any tariffs on trade will therefore have a bearing on the Group. We have contingency planning in place, looking at alternative UK sources of products. Higher logistics and administration costs may result from border delays and could necessitate higher stock levels. We are developing labour strategies to retain and develop existing workers, attract and hire new workers and reduce labour, while boosting productivity with our capital investment programme. We believe we have strategies that would minimise the impact and the directors are satisfied with the carrying value of the remaining cash generating units.

Notes to the Consolidated Financial Statements/Continued

11. Leases

This is the first full-year set of the Group's Financial Statements in which IFRS 16 has been applied. The Group has adopted IFRS 16 from 30 June 2019 using the modified retrospective approach, comparatives have not been restated. The reclassifications and adjustments from the new leasing rules are therefore recognised in the opening Consolidated Statement of Financial Position on 30 June 2019. Under IFRS 16 the previous operating leases charge has been replaced by the depreciation on the right of use asset and interest on the lease liability. The Group leases many assets including land and buildings, vehicles, machinery and equipment.

The impact on the Consolidated Statement of Financial Position as at 27 June 2020 and the Consolidated Statement of Comprehensive Income for the 52 weeks to 27 June 2020 are shown in the tables below:

(i) Amounts recognised in the Consolidated Statement of Financial Position:
Property plant and equipment comprises owned and leased assets that do not meet the definition of investment property.

	Note	27 June 2020 £000
Property plant and equipment owned	13	**52,302**
Right of use assets	13	**9,434**
		61,736

Included within right of use assets in the table above are assets with a net book value of £1,373,000 previously recognised as a Finance lease under IAS 17.

Right of use assets

	Property £000	Plant, equipment and vehicles £000	Total £000
Adjustment on transition to IFRS 16			
Assets previously recognised as a finance lease under IAS 17	-	1,373	1,373
Assets previously recognised as an operating lease under IAS 17	14,031	941	14,972
Onerous lease transferred as a proxy for impairment on transition (Note 21)	(3,804)	-	(3,804)
Total adjustments on transition to IFRS 16	10,227	2,314	12,541
Lease modifications – Note 21	(454)	-	(454)
Reversal of impairment	454	-	454
Depreciation charge for the year	(1,368)	(551)	(1,919)
Balance at 27 June 2020	8,859	1,763	10,622

Right of use assets recognised upon adoption of IFRS 16 previously recognised as operating leases under IAS 17 on 30 June 2019 were £11,168,000 (cost £14,972,000 net of impairment of £3,804,000) and £1,373,000 previously recognised as a finance Lease under IAS 17. There were no additions to right of use assets during the year.

Depreciation for the period to 27 June 2020 on right of use assets for leases previously treated as operating leases under IAS 17 is £1,734,000 and a net book value at 27 June 2020 of £9,434,000.

Lease liabilities

	At 27 June 2020 £000	At 30 June 2019 £000
Contracted undiscounted minimum lease payments		
Not later than one year	**3,369**	3,587
Later than one year and not later than five years	**6,658**	7,606
Later than five years	**3,859**	5,321
Total gross payments	**13,886**	16,514
Discounted using the Group's weighted average incremental borrowing rate	**12,495**	15,709
Less low-value leases not recognised as a liability	**(22)**	(31)
Less short-term and low-value leases recognised as an expense on a straight-line basis	**(164)**	(234)
Add/less adjustments as a result of a different treatment of termination options	**(14)**	356
Lease liability recognised	**12,295**	15,800
Current lease liability	**3,191**	3,105
Non-current lease liability	**9,104**	12,695

Lease liabilities recognised on adoption of IFRS 16 on 30 June 2019 for assets previously treated as operating leases under IAS 17 were £14,972,000 these had a closing value of £11,823,000 at 27 June 2020.

Notes to the Consolidated Financial Statements/Continued

11. Leases/Continued

(ii) Amounts recognised in the Consolidated Statement of Comprehensive Income

	52 weeks ended 27 June 2020 £000
Interest on lease liabilities	**(273)**
Variable lease payments not included in the measurement of lease liabilities	**(193)**
Expenses relating to short-term leases	**(164)**
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	**(16)**

Consolidated Statement of Comprehensive Income Impact of IFRS 16 in comparison to when IAS 17 applied*

	52 weeks ended 27 June 2020 £000
Reduction in lease rentals	**1,840**
Depreciation on right of use assets	**(1,734)**
Impact on the operating profit	**106**
Lease related interest costs	**(247)**
Overall impact on Group profit before tax of IFRS 16	**(141)**

* The table above does not include impact of leases previously recognised as finance leases under IAS 17 as there is no change in accounting treatment of these leases under IFRS 16.

(iii) Amounts recognised in the Consolidated Cash Flow Statement

Cash flow impact

	52 weeks ended 27 June 2020 £000
Total cash outflow for lease rentals	**3,362**

Impact on earnings per share
The impact on earnings per share for the 52 weeks to 27 June 2020 as a result of first time adoption of IFRS 16 is a reduction of (0.1) pence per share.

Notes to the Consolidated Financial Statements/Continued

12. Property, Plant and Equipment

	Land and buildings £000	Plant and equipment £000	Fixtures and fittings £000	Assets under construction £000	Total £000
Cost					
Balance at 30 June 2018	19,326	73,867	5,063	695	98,951
Exchange adjustments	-	-	(23)	-	(23)
Additions	122	6,056	225	2,201	8,604
Acquisitions	3,289	2,188	289	-	5,766
Transfers	-	264	73	(337)	-
Disposals	(157)	(30)	(96)	-	(283)
Balance at 29 June 2019	**22,580**	**82,345**	**5,531**	**2,559**	**113,015**
Balance at 29 June 2019	22,580	82,345	5,531	2,559	113,015
Adjustment on transition to IFRS 16	14,030	941	-	-	14,971
Balance at 30 June 2019	36,610	83,286	5,531	2,559	127,986
Exchange adjustments	-	(155)	-	-	(155)
Additions	753	5,122	158	(1,503)	4,530
Acquisitions	-	-	-	-	-
Disposals	(58)	(332)	-	-	(390)
Lease modifications under IFRS 16	(454)	-	-	-	(454)
Balance at 27 June 2020	**36,851**	**87,921**	**5,689**	**1,056**	**131,517**
Accumulated depreciation and impairment					
Balance at 30 June 2018	(5,570)	(39,720)	(3,739)	-	(49,029)
Exchange adjustments	-	-	(42)	-	(42)
Depreciation charge for the financial period	(782)	(6,120)	(464)	-	(7,366)
Transfers	-	-	-	-	-
Disposals	157	190	84	-	431
Balance at 29 June 2019	**(6,195)**	**(45,650)**	**(4,161)**	**-**	**(56,006)**
Balance at 29 June 2019	(6,195)	(45,650)	(4,161)	-	(56,006)
Adjustments on transition to IFRS16 – Note 21	(3,804)	-	-	-	(3,804)
Balance at 30 June 2019	(9,999)	(45,650)	(4,161)	-	(59,810)
Exchange adjustments	-	-	4	-	4
Depreciation charge for the financial period	(2,149)	(7,061)	(365)	-	(9,575)
Impairment (Note 4)	-	(1,237)	-	-	(1,237)
Disposals	58	325	-	-	383
Lease modifications under IFRS 16	454	-	-	-	454
Balance at 27 June 2020	**(11,636)**	**(53,623)**	**(4,522)**	**-**	**(69,781)**
Net book value					
At 30 June 2018	13,756	34,147	1,324	695	49,922
At 29 June 2019	16,385	36,695	1,370	2,559	57,009
At 27 June 2020	**25,215**	**34,298**	**1,167**	**1,056**	**61,736**

Property, plant and equipment includes right of use assets recognised for leases previously recognised as operating leases under IAS 17 upon adoption of IFRS 16 of £11,168,000 (cost £14,971,000 net of impairment of £3,804,000 see Note 21) and £1,373,000 previously recognised as a Finance lease under IAS 17 (see Note 11).

There were no additions to right of use assets during the year.

There has been a non-cash impairment of assets at the Cardiff site, this reflects the specific writing down of an asset where there were no firm plans to utilise the asset.

Security

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. Hire purchase obligations are secured on the underlying assets.

The lease obligations are secured on leased equipment (see Note 18).

Notes to the Consolidated Financial Statements/Continued

13. Other Financial Assets and Liabilities

	2020 £000	2019 £000
Non-current		
Other financial assets	-	28
Current assets – derivatives		
Fair value of interest rate swaps	**-**	176
Total of derivatives with positive fair values	**-**	176
Current liabilities – derivatives		
Fair value of interest rate swaps	**(210)**	-
Fair value of foreign exchange contracts	**(291)**	(218)
Total of derivatives with negative fair values	**(501)**	(218)

Investment in Associates
During the prior year the Group assessed the carrying value of its investment in Dr Zaks and in the challenging economic environment the carrying value has been fully impaired.

Interest Rate Swaps at Fair Value
The Group has two forward dated interest rate swap arrangements to hedge its risks associated with interest rate fluctuations:

- £20.0 million for five years from 3 July 2017 (fixed) at 0.455%; and
- £5.0 million for three years from 28 March 2019 (fixed) at 1.002%.

There was £25.0 million coverage in place at the year end (2019: £25.0 million).

A charge of £386,000 (2019: charge £382,000) is shown in finance income for the period reflecting changes in the fair values of interest rate swaps.

Forward Foreign Exchange Contracts at Fair Value
The Group has entered into a number of forward foreign exchange contracts to minimise the impact of fluctuations in exchange rates. A charge of £73,000 (2019: charge £178,000) is shown in administrative expenses for the period reflecting changes in their fair value.

14. Pension Schemes

A number of companies within the Group operate defined contribution pension schemes with one company also operating a defined benefit scheme.

Defined Contribution Scheme
The Group made contributions in respect of its defined contribution pension arrangements of £2,099,000 (2019: £1,681,000).

Defined Benefit Scheme
The Group's defined benefit scheme is the Memory Lane Cakes Pension Scheme, which is a separately administered plan. At the financial year end, the Scheme had no active members accruing benefits (2019: nil), 168 deferred pensioner members (2019: 175) and 229 pensioner members (2019: 227).

The scheme was closed to future accrual on 31 May 2010. The assets of the Scheme are held separately from those of the Company. The amounts in the Financial Statements for the 52 weeks ended 27 June 2020 relating to defined benefit pension are based on a full actuarial valuation dated 31 December 2018.

A £200,000 contribution was paid during the financial year by Memory Lane Cakes Limited (2019: £200,000). The Group's contribution has been agreed based on the outcome of the full actuarial valuation dated 31 December 2015. An updated contribution schedule based on the outcome of the full actuarial valuation dated 31 December 2018 was effective from 1 July 2020. The valuation of the Scheme on an equity/bond basis and projected unit method, showed that there was a deficit at 31 December 2018 of £12,742,000 equivalent to a 42% deficit of liabilities over assets. The valuation was conducted by a qualified independent actuary. This deficit is payable at a rate of £500,000 per annum until April 2047. The next full valuation will be prepared as at 31 December 2021 and will be an opportunity to challenge the appropriateness of this recovery plan taking into consideration the deficit recovery contributions and actual returns realised on the pension scheme assets.

The present value of the Company's committed deficit reduction contributions does not give rise to a net pension asset or additional Consolidated Statement of Financial Position liability in accordance with IFRIC 14.

The investments are managed by a fiduciary investment manager River and Mercantile who were appointed as fiduciary investment manager in December 2018. A new Statement of Investment Principles (SIP) in compliance with the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005 was agreed in January 2019. All of the Scheme's investments meet the criteria detailed in the SIP relevant for the Scheme year to 31 December 2018. A change of investments has taken place during 2019 aligning to the new SIP with the introduction of hedging strategies to its investment portfolio. The expected return on cash balances held is based on the current Bank of England base rate rather than long-term deposit rates as cash is held to cover short-term requirements.

Notes to the Consolidated Financial Statements/Continued

14. Pension Schemes/Continued

The full actuarial valuation differs from the financial year-end valuation deficit of £15,174,000 (2019: £11,312,000). No allowance is made in the financial year-end valuation for any outperformance expected from the Scheme's actual asset holding over and above high-quality corporate bonds.

	2020 £000	2019 £000
Fair value of plan assets	**19,607**	19,238
Present value of defined benefit obligations	**(34,781)**	(30,550)
Deficit recognised	**(15,174)**	(11,312)

The fair value of plan assets and the return on those assets were as follows:

	2020 £000	2019 £000
Multi-asset growth fund	**12,617**	14,405
Liability-hedging portfolio (gilts/swaps)	**2,856**	2,256
Other	**1,704**	1,580
Property	**717**	753
Cash	**1,713**	244
Fair value of plan assets	**19,607**	19,238
Actual return on plan assets	**959**	886

None of the fair values of the assets shown on the previous page includes any of the Company's own financial instruments or any property occupied by, or any other assets used by, the Company.

	2020 £000	2019 £000
Movements in present value of defined benefit obligation		
At beginning of financial year	**(30,550)**	(29,370)
Past service costs	**-**	(362)
Interest on plan obligations	**(687)**	(784)
Benefits paid	**790**	682
Remeasurement – experience gain on liabilities	**-**	1,614
Remeasurement – (loss)/gain from changes to financial assumptions	**(4,334)**	(2,631)
Remeasurement – gain from changes to demographic assumptions	**-**	301
At end of financial year	**(34,781)**	(30,550)
Movements in fair value of plan assets		
At beginning of financial year	**19,238**	18,834
Interest on plan assets	**431**	502
Return on plan assets less interest	**528**	384
Benefits paid	**(790)**	(682)
Contributions by employer	**200**	200
At end of financial year	**19,607**	19,238

Remeasurement gains and losses arise due to changes in the key assumptions such as inflation, mortality rates, demographic rates and discount rates as well as experience gains and losses.

Notes to the Consolidated Financial Statements/Continued

14. Pension Schemes/Continued

	2020 £000	2019 £000
Expense recognised in the Consolidated Statement of Comprehensive Income		
Past service costs	**-**	(362)
Interest on plan assets/finance income	**431**	502
Interest on plan obligations/finance expense	**(687)**	(784)
Total expense	**(256)**	(644)
Remeasurement gains and losses recognised directly in equity in the Statement of Comprehensive Income and Expense since 1 July 2006, the transition date to Adopted IFRS		
Cumulative amount at beginning of financial year	**(13,135)**	(12,803)
Recognised in the financial year – return on plan assets less interest	**528**	384
Recognised in the financial year – experience gains on liabilities	**-**	1,614
Recognised in the financial year – (loss)/gain from changes to financial assumptions	**(4,334)**	(2,631)
Recognised in the financial year – gains from changes to demographic assumptions	**-**	301
Cumulative amount at end of financial year	**(16,941)**	(13,135)

	2020 %	2019 %
Principal long-term actuarial assumptions at the year end		
CPI price inflation assumption	**2.35**	2.40
Increases to pensions in payment	**2.35**	2.40
Discount rate for liabilities	**1.50**	2.30
Rate of return for plan assets	**1.50**	2.30

The differential between the assumed rate of inflation and the discount rate for liabilities is 0.85% (2019: 0.10%).
Salary inflation assumptions are as determined by the Board with regard to price inflation. The salary inflation from 31 May 2010 when the Scheme closed to future accrual was assumed to be in line with inflation.

The financial assumptions are based on market conditions as at the review date of 27 June 2020 with discount rates based on the yields on long-dated high-quality corporate bonds. The discount rate is lower than the discount rate used last year reflecting the change in bond yields over this period. The rate of return for plan assets is the long-term rate that reflects the yield on high-quality corporate bonds as required under changes to IAS 19. The rate of return is effectively based on the discount rate with no allowance made for any outperformance expected from the Scheme's actual asset holding. The actual return on the Scheme's assets, net of expenses, over the year to the review date was around 5% (2019: 5%).
The actual return has been impacted by the worldwide Covid-19 pandemic that has had a profound impact on the economy as countries went into lockdown; uncertainty and volatility remain a feature of the current equity markets.

Changing the year end 2020 assumptions to those of 2019 year end listed above, the deficit would have been £10,840,000 compared to the reported deficit of £15,174,000.

	2020	2019
Post-retirement mortality assumption	**S3NA tables with CMI 2017 (core parameters) projections and 1.25% pa long-term rate of improvement**	S3NA year of birth tables with CMI 2017 projections and 1.25% pa long-term rate of improvement

Under the mortality tables adopted, the assumed future life expectancy at age 65 is as follows:

	2020	2019
Male currently at age 45	**24.1**	24.0
Female currently at age 45	**26.4**	26.3
Male currently at age 65	**22.7**	22.6
Female currently at age 65	**25.0**	24.9
Allowance for GMP equalisation (increase liabilities at the review date by):	**1.2%**	1.2%

Notes to the Consolidated Financial Statements/Continued

14. Pension Schemes/Continued

Sensitivity Analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises changes in these assumptions and their approximate (decrease)/increase in liabilities.

	2020
Discount rate plus 0.5%	**(£3.00 million)**
Discount rate minus 0.5%	**£3.43 million**
Inflation plus 0.5%	**£3.22 million**
Inflation minus 0.5%	**(£3.18 million)**
Life expectancy plus 1.0 years	**£1.46 million**
Life expectancy minus 1.0 years	**(£1.49 million)**

The above sensitivities are approximate and only show the likely effect of an assumption being adjusted whilst all other assumptions remain the same.

The weighted average duration of the defined benefit obligation is around 27 years.

Risk Mitigation Strategies

During the previous year, the Trustees changed the investment advisory role to a fiduciary investment management role; this brought about a change with the introduction of hedging strategies to its investment portfolio. River and Mercantile were appointed as fiduciary investment manager in December 2018 and a new Statement of Investment Principles (SIP) was agreed in January 2019. All of the Scheme's investments meet the criteria detailed in the SIP relevant for the Scheme year to 31 December 2018. A change of investments took place during 2019 aligning to the new SIP.

Effect of the Scheme on the Company's Future Cash Flows

The Company is required to agree a Schedule of Contributions with the Trustees of the Scheme following a valuation which must be carried out at least once every three years. The next valuation of the Scheme will be prepared as at 31 December 2021. In the event that the valuation reveals a larger deficit than expected the Company may be required to increase contributions above those set out in the existing Schedule of Contributions. Conversely, if the position is better than expected contributions may be reduced. The total cash cost to the Company for the current financial year is £435,000 (2019: £402,000). This includes deficit recovery contributions, pension protection fund levy fees and cost of advisors. The Company expects to pay deficit recovery contributions of £500,000 in the year to 26 June 2021. The projected net interest charge to the Consolidated Statement of Comprehensive Income for the year to 26 June 2021 is £224,000. This projection assumes cashflows to and from the Scheme are broadly unchanged from the current year figures and that there will be no events that would give rise to a settlement/curtailment/past service cost.

Consolidated Statement of Financial Position

	2020 £000	2019 £000	2018 £000	2017 £000	2016 £000
Fair value of plan assets	**19,607**	19,238	18,834	19,985	19,287
Present value of the defined benefit obligation	**(34,781)**	(30,550)	(29,370)	(30,483)	(25,750)
Deficit	**(15,174)**	(11,312)	(10,536)	(10,498)	(6,463)
Experience adjustments on plan assets	**528**	384	(779)	712	(1,451)
as a percentage of plan assets	**2.7%**	2.0%	(4.1%)	3.6%	(7.5%)
Experience adjustments on plan liabilities	**-**	1,614	-	-	236
as a percentage of plan liabilities	**0.0%**	5.3%	0.0%	0.0%	0.9%
Total remeasurement (losses)/gains	**(3,806)**	(332)	(172)	(4,031)	(2,595)
as a percentage of plan liabilities	**10.9%**	1.1%	0.6%	13.2%	10.1%

Notes to the Consolidated Financial Statements/Continued

15. Inventories

	2020 £000	2019 £000
Raw materials and consumables	**6,311**	6,302
Finished goods	**8,307**	8,503
	14,618	14,805

Inventories Recognised as an Expense

	2020 £000	2019 £000
Opening inventories	**14,805**	13,456
Acquired	**-**	1,200
Purchases	**138,180**	135,153
Increase/(decrease) in stock provisions	**321**	292
Closing inventories	**(14,618)**	(14,805)
Expensed during the period	**138,688**	135,296

Inventories are stated after provisions for impairment of £1,097,000 (2019: £755,000).

16. Trade and Other Receivables

	2020 £000	2019 £000
Trade receivables due from third parties	**36,007**	45,207
Other debtors	**2,356**	2,577
Prepayments and accrued income	**1,640**	1,940
	40,003	49,724

Trade receivables due from third parties are stated after provisions for impairment of £795,000 (2019: £760,000).

17. Cash and Cash Equivalents Including Bank Overdrafts

	2020 £000	2019 £000
Cash at bank and on hand	**24,181**	29,462
Bank overdraft	**(14,008)**	(17,104)
	10,173	12,358

Notes to the Consolidated Financial Statements/Continued

18. Other Interest-Bearing Loans and Borrowings

This note provides information about the contractual terms and repayment terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost, using the effective interest rate method.

2020 Statutory	Margin	Frequency of repayments	Year of maturity	Facility £000	Drawn £000	Current £000	Non-current £000
Revolving credit	1.50%/LIBOR	Varies	2023	55,000	36,184	-	36,184
Leases*	Various	Monthly	Various		12,295	3,191	9,104
Unamortised transaction costs					(175)	-	(175)
					48,304	**3,191**	**45,113**

Leases* include all leases recognised as lease liabilities under IFRS 16 (see Note 11). Lease liabilities are shown separately in the table below to show total bank debt as defined by our banking facility agreement, which only recognises leases as defined as finance leases under IAS 17 as part of bank debt.

2020	Margin	Frequency of repayments	Year of maturity	Facility £000	Drawn £000	Current £000	Non-current £000
Revolving credit	1.50%/LIBOR	Varies	2023	55,000	36,184	-	36,184
Finance Lease (under IAS 17)	Various	Monthly	2023		472	247	225
Unamortised transaction costs					(175)	-	(175)
Total bank debt					**36,481**	**247**	**36,234**
Operating leases (under IAS 17)	2.2%	Varies			11,823	2,944	8,879
Total debt					48,304	3,191	45,113

2019	Margin	Frequency of repayments	Year of maturity	Facility £000	Drawn £000	Current £000	Non-current £000
Revolving credit	1.50%/LIBOR	Varies	2023	55,000	47,144	-	47,144
Finance Lease (under IAS 17)	Various	Monthly	2023	828	828	335	493
Unamortised transaction costs					(247)	-	(247)
Total bank debt at 29 June 2019					**47,725**	**335**	**47,390**
Operating leases (under IAS 17) at 30 June 2019 on transition to IFRS 16	2.2%	Varies			14,972	2,770	12,202
Total debt at 30 June 2019 on transition to IFRS 16					62,697	3,105	59,592

All of the above loans are denoted in pounds Sterling, with various interest rates and maturity dates. The main purpose of the above facilities is to finance the Group's operations. For more information about the Group's exposure to interest rate risk, see Note 23.

As part of the bank borrowing facility the Group needs to meet certain covenants every six months. There were no breaches of covenants during the year. The covenant tests required are net bank debt: EBITDA, interest cover, debt service cover and capital expenditure.

The revolving credit bank facility available for drawdown is £55.0 million plus a further £35.0 million accordion facility (2019: £35.0 million plus a further £55.0 million accordion). At the period end date, the facility utilised was £36.2 million (2019: £47.1 million), giving £18.8 million (2019: £7.9 million) headroom plus a further £35.0 million (2019: £35.0 million) accordion.

19. Analysis of Net Bank Debt

	At year ended 29 June 2019 £000	Adjustment on transition to IFRS 16 as at 30 June 2019 £000	Cash flow £000	**At year ended 27 June 2020 £000**
Cash and cash equivalents	12,358	-	(2,185)	**10,173**
Debt due after one year	(47,144)	-	10,960	**(36,184)**
Hire purchase obligations* due within one year	(335)	335	-	**-**
Hire purchase obligations* due after one year	(493)	493	-	**-**
	(35,614)	828	8,775	**(26,011)**
Unamortised transaction costs	247	-	(72)	**175**
Debt net of unamortised costs	(35,367)	828	8,703	**(25,836)**

In the previous year, the company only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as part of the Company's borrowings. Hire purchase obligations* previously recognised as finances Leases under IAS 17 are recognised as lease liabilities under IFRS 16 (see Note 11).

Notes to the Consolidated Financial Statements/Continued

19. Analysis of Net Debt/Continued

The table below is presented to demonstrate total debt as defined by our banking facility agreement. This excludes the lease liabilities created on transition to IFRS 16 for leases treated as operating leases under IAS 17.

	At year ended 29 June 2019 £000	Cash flow £000	**At year ended 27 June 2020 £000**
Cash and cash equivalents	12,358	(2,185)	10,173
Debt due after one year	(47,144)	10,960	(36,184)
Hire purchase obligations due within one year	(335)	88	(247)
Hire purchase obligations due after one year	(493)	268	(225)
Total net bank debt	(35,614)	9,131	**(26,483)**

20. Trade and Other Payables

	2020 £000	2019 £000
Current		
Trade creditors	**30,512**	37,162
Other creditors including taxes and social security	**2,046**	3,781
Accruals and deferred income	**16,303**	14,600
	48,861	55,543

21. Provisions and Deferred Consideration

Provisions

	Site closure £000	**Pension £000**	**Total £000**
Balance at the beginning of the financial year	5,875	199	6,074
Adjustment on transition to IFRS 16*	(3,804)	-	(3,804)
Utilised during the financial year	(1,228)	(21)	(1,249)
Balance at the end of the financial year	843	178	1,021
Current provisions	450	21	471
Non-current provisions	393	157	550

* On adoption of IFRS 16 £3,804,000 of the site closure provision was transferred to impairment of property, plant and machinery (see note 12).

The site closure provision relates to the closure of the Grain D'Or site in October 2017, the provision is based on best estimates of the outcome of negotiations and currently have commitments to June 2023 for service charges, security and insurance costs on a number of leased production units.

The pension provision relates to a contractual liability for pension augmentation, the amount utilised during the year represents payments in relation to the augmentations which are being paid over 13 years.

Deferred Consideration

The deferred consideration relates to the acquisition of Ultrapharm Limited (Ultrapharm) for £16.9 million plus up to £3.0 million, £2.0 million of which is outstanding at the 27 June 2020 and payable in quarterly instalments to October 2022. Discounted amounts payable within one year of the Consolidated Statement of Financial Position date is £481,000 and amounts due beyond one year is £1,357,000. Amounts charged to finance expenses during the year for the unwinding of the discounting is £14,000 (2019: 139,000).

Notes to the Consolidated Financial Statements/Continued

22. Deferred Tax Assets and Liabilities

Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2020 £000	2019 £000	**2020 £000**	2019 £000
Intangibles	**-**	-	**(1,346)**	(1,325)
Property, plant and equipment	**-**	-	**(740)**	(415)
Foreign exchange contracts	**55**	37	**-**	-
Short-term temporary differences	**38**	40	**-**	-
Interest rate swaps	**40**	-	**-**	(30)
Discounting of deferred consideration	**-**	-	**(31)**	(30)
Pension scheme charges	**2,883**	1,923	**-**	-
Employee share scheme charges	**391**	574	**-**	-
Losses acquired	**1,216**	1,081	**-**	-
Tax assets/(liabilities)	**4,623**	3,655	**(2,117)**	(1,800)
Net tax assets/(liabilities)	**2,506**	1,855	**-**	-

Short-term temporary differences relate to general provisions which will be allowed when utilised. The deferred tax asset recognised for losses relate to acquired businesses, based on current and forecast levels of profitability, the losses are expected to be utilised within 3 years.

Movement in Deferred Tax during the Year

	29 June 2019 £000	Acquired £000	Recognised in income £000	Recognised in equity £000	**27 June 2020 £000**
Intangibles	(1,325)	-	(21)	-	**(1,346)**
Property, plant and equipment	(415)	103	(428)	-	**(740)**
Foreign exchange contracts	37	-	18	-	**55**
Short-term temporary differences	40	-	(2)	-	**38**
Interest rate swaps	(30)	-	70	-	**40**
Discounting of deferred consideration	(30)	-	(1)	-	**(31)**
Pension Scheme	1,923	-	237	723	**2,883**
Employee share Scheme	574	-	(1)	(182)	**391**
Losses acquired	1,081	-	135	-	**1,216**
	1,855	103	7	541	**2,506**

	30 June 2018 £000	Acquired £000	Recognised in income £000	Recognised in equity £000	29 June 2019 £000
Intangibles	(1,148)	(291)	114	-	(1,325)
Property, plant and equipment	111	(127)	(399)	-	(415)
Foreign exchange contracts	7	-	30	-	37
Short-term temporary differences	(10)	-	50	-	40
Interest rate swaps	(95)	-	65	-	(30)
Discounting of deferred consideration	-	(54)	24	-	(30)
Pension scheme	1,791	-	76	56	1,923
Employee share scheme	711	-	119	(256)	574
Losses acquired	1,280	-	(199)	-	1,081
	2,647	(472)	(120)	(200)	1,855

The deferred tax liability in respect of intangible assets will unwind in line with the amortisation of intangible assets.

Notes to the Consolidated Financial Statements/Continued

23. Financial Risk Management

The main purpose of the Group's financial instruments is to finance the Group's operations. The financial instruments comprise a revolving credit facility, hire purchase, finance leases, interest rate swaps, foreign currency forwards, cash and liquid resources and various items arising directly from its operations, such as trade receivables and trade payables. The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The Group's policies on the management of liquidity, credit, interest rate and foreign currency risks are set out below and the main risks are also referred to in the Strategic Report on pages 30 to 33.

a) Fair Values of Financial Instruments

All financial assets and liabilities are held at amortised cost apart from forward exchange contracts and interest rate swaps, which are held at fair value, with changes going through the Consolidated Statement of Comprehensive Income. The Group has not disclosed the fair values for financial instruments such as short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values.

The fair values of forward exchange contracts and interest rate swaps are determined using a market comparison valuation technique. The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments. The fair values relating to these instruments represent level 2 in the fair value hierarchy which relates to the extent the fair value can be determined by reference to comparable market values. The classifications range from level 1 where instruments are quoted on an active market through to level 3 where the assumptions used to arrive at fair value do not have comparable market data.

b) Liquidity

The Group's policy is to ensure that it has sufficient facilities to cover its future funding requirements. Short-term flexibility is available through the existing bank facilities and the netting off of surplus funds. 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. The estimated interest payments are based on interest rates prevailing at 27 June 2020.

		Contractual cash flows including estimated interest				
At year ended 27 June 2020	**Carrying amount £000**	Total £000	1 year or less £000	1 to 2 years £000	2 to 5 years £000	5 years and over £000
Non-derivative financial liabilities						
Revolving credit	**(36,184)**	(36,238)	–	–	(36,238)	–
Trade creditors	**(30,512)**	(30,512)	(30,512)	–	–	–
Lease liabilities	**(12,295)**	(13,650)	(3,218)	(2,563)	(4,010)	(3,859)
Other lease liabilities	**-**	(200)	(192)	(8)	–	–
	(78,991)	(80,600)	(33,922)	(2,571)	(40,248)	(3,859)

		Contractual cash flows including estimated interest				
At year ended 29 June 2019	**Carrying amount £000**	Total £000	1 year or less £000	1 to 2 years £000	2 to 5 years £000	5 years and over £000
Non-derivative financial liabilities						
Revolving credit	**(47,144)**	(47,394)	–	–	(47,394)	–
Finance lease liabilities	**(828)**	(928)	(380)	(272)	(276)	–
Trade creditors	**(37,162)**	(37,162)	(37,162)	–	–	–
	(85,134)	(85,484)	(37,542)	(272)	(47,670)	–
Lease liabilities recognised as operating leases (under IAS 17) at 30 June 2019 on transition to IFRS 16	**(14,972)**	(15,586)	(3,207)	(3,218)	(4,116)	(5,045)

The information relating to the interest rate swaps shown in the tables above indicate the cash flows associated with these instruments. This also reflects the expected effect on the future profit. These amounts will change as interest rates change.

Short-term flexibility is available through existing bank facilities and the netting off of surplus funds.

Notes to the Consolidated Financial Statements/Continued

23. Financial Risk Management/Continued

c) 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 controlled by assessing the credit quality of the customer, taking into account its financial position, past experience and other factors and are monitored and managed at operating level and are also monitored at Group level. Whilst there is a concentration of credit risk arising from the profile of five customers accounting for more than 50% of total revenue, the Group deems this to be low risk due to the nature of these customers. The carrying amount of the financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk for the trade receivables at the period end date was £45.2 million (2019: £40.0 million) and the ageing of trade receivables at the period end date was:

	2020 £000	2019 £000
Not past due	**32,668**	39,666
Past due 0-30 days	**2,157**	4,407
Past due 31-120 days	**890**	626
Past due more than 120 days	**292**	508
	36,007	45,207

The above numbers are net of impairment provisions. The Group provides for impairment of financial assets including receivables from customers based on known events, and some collective provisions are made for losses yet to be identified, based on historical data. The majority of the provision comprises of specific amounts.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there may be no reasonable expectation of recovery may include the failure of the debtor to engage in a payment plan negotiations, and failure to make contractual payments significantly after due date.

The Group's strategy is to focus on supplying UK multiple grocers and foodservice distributors; 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 year end. The balance of £1.2 million past due by more than 30 days is equivalent to less than 2 days sales (2019: £1.1 million, equivalent to less than 2 days). We have worked with our customers during the pandemic and the significant disruption that it has brought to the economic environment to ensure cash is preserved and we trade successfully through these unprecedented challenges with fluctuations in demand, changes to consumer behaviour and sales channel closures.

Based on the above and analysis performed there is no deemed impact of applying Expected credit loss (ECL) methodology under IFRS 9 as in the prior year.

Gross trade receivables are assessed regularly by each subsidiary entity locally with reference to appropriate considerations such as the current position of the relationship with the customer, days past due and the geographical location of each customer. Expected losses are determined based on the historical experience of write-offs compared to the level of trade receivables. The nature of the Group's customer base has meant historic write-offs are trivial, hence no material impact of applying IFRS 9 ECL methodologies. If this impact was deemed significant the historical loss expectations would be amended for current and forward-looking information such as national economic outlooks accordingly to form the basis of any provision.

Details of the Company's credit risk are not disclosed because the Financial Statements of the Group disclose such details on a consolidated basis.

d) Market Risk

The Covid-19 pandemic has resulted in significant changes to the Retail and Foodservice sectors. Consumers have changed their shopping behaviour within Retail with both positive and negative implications for Finsbury's products. Foodservice channels were closed almost overnight, recovery is slow with Foodservice volumes at less than half pre-outbreak levels and this suppressed demand is to continue to remain suppressed until a solution for Covid-19 is found. The pandemic has impacted significantly on commercial, operational and financial performance.

An internal crisis team formed and met daily to oversee the impact of the pandemic. The priority is and was to ensure the safety of all employees and to make rapid changes to the way the business operates by establishing safe ways of working based on social distancing and home working. Financially the business moved to manage cash while ensuring no adverse consequential impact to our customer and supplier base.

i) Interest Rate Risk

The Group's interest rate risk exposure is primarily to changes in variable interest rates. The Group has entered into two interest rate swap arrangements in order to hedge its risks associated with any fluctuations. Details of swaps are given in Note 13.

The profile of the Group's loans and overdraft at the period end date were split as follows:

	2020 £000	2019 £009
Variable rate liabilities	**(36,656)**	(47,972)

Swaps amounting to £25.0 million (2019: £25.0 million) limit the risk associated with the variable rate liabilities. The interest rates for the forward dated swaps are fixed at 0.455% for £20.0 million and 1.002% for £5.0 million.

Notes to the Consolidated Financial Statements/Continued

Sensitivity
A 1% increase in the base rate or LIBOR would have the following impact on interest charges and associated net assets for the Group, this sensitivity relates to interest-bearing bank borrowings and interest rate swaps only and excludes possible changes in pension financing costs.

	2020 £000	2019 £000
Profit decrease	**300**	589
Decrease in net assets	**112**	388

A 1% decrease in the base rate or LIBOR would have an equal and opposite impact to those listed above.

The above movement is not equal to 1% of interest-bearing loans because of interest rate swap cover that is in place.

ii) Commodity Prices
Any rises in commodity prices can adversely impact the core profitability of the business. The Group will aim to pass on its increased costs to its customers as far as is reasonable in the circumstances whilst maintaining its tight control over overhead costs to mitigate the impact on consumers. The Group maintains a high expertise in its buying team and will consider long-term contracts where appropriate to reduce uncertainty in commodity prices. Further information on input prices and risks is contained in the Strategic Report.

iii) Foreign Exchange Risk
We acquired manufacturing facilities in Poland through the Ultrapharm acquisition. The sites supply to mainland Europe with income in Euros and local costs denominated in Polish złoty. We supply UK-manufactured products to Lightbody Stretz Ltd, our 50%-owned selling and distribution business which trades in mainland Europe. We also buy a small number of commodities and capital equipment in foreign currency.
As a consequence, we are exposed to fluctuations in foreign currency rates. We manage this risk by continually monitoring our exposure to foreign currency transactions. We use forward currency contracts when required and our procurement team works hard to ensure we get the best prices for commodities and equipment giving special consideration to the benefits of contracts denominated in foreign currency.

e) Debt and Capital Management
The Group's objective is to maximise the return on net invested capital while maintaining its ongoing ability to operate and guaranteeing adequate returns for shareholders and benefits for other stakeholders within a sustainable financial structure.

The Coronavirus crisis has had a profound impact on the economy and heightened uncertainty around future economic recovery, therefore the Board took the decision as announced on 29 March 2020, to withdraw its proposed interim dividend. While the Board remains committed to the payment of dividends, it believes it is prudent to conserve the Group's cash at this time of heightened instability. The Board will assess the Group's cash position and the outlook for the business at time of the full year results, and will adjust its approach to the final dividend accordingly. It is the Company's intention to pay dividends at an affordable rate so that the Company can continue to invest in the business in order to grow profits.

The Group manages its capital by monitoring its gearing ratio on a regular basis, there are also covenant tests which are monitored regularly and presented to the Group's banks every six months. There have been no breaches of covenant tests during the year and the gearing ratio stands at 0.4 (2019: 0.4). The gearing ratio is calculated taking the total net debt including deferred consideration over net assets.

The Group considers its capital to include share capital, share premium and capital redemption reserve.

The Group does not have any externally imposed capital requirements.

24. Capital and Reserves

The reconciliation of movement in capital and reserves is shown as a primary statement: Consolidated Statement of Changes in Equity on page 65.

Equity comprises the following:

- Share capital representing the nominal value of equity shares;
- Share premium representing the excess of the fair value of consideration received for the equity shares; (net of expenses of the share issue) over nominal value of the equity shares;
- Capital redemption reserve representing the buyback and cancellation of shares at nominal value;
- Employee share reserve representing ordinary shares held in an employee benefit trust (EBT) to satisfy awards made to employees; and
- Retained earnings representing retained profits.

Notes to the Consolidated Financial Statements/Continued

25. Share Capital

	2020 000's	2019 000's
In issue at beginning of the financial year	**130,383**	130,383
Shares issued	**-**	-
In issue at end of the financial year – fully paid	**130,383**	130,383

	£000	£000
Allotted, called up and fully paid		
Ordinary shares of 1p each	**1,304**	1,304

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. Shares are held in an Employee Benefit Trust (EBT), which is intended to be used to satisfy awards made to employees (3,247,383 shares were held at the year end). All shares are the same class with equal rights. During the year the EBT purchased 984,894 ordinary shares of 1p each in the capital of the Company ("Ordinary Shares") at a price of £0.9835 per Ordinary Share.

At the 2019 Annual General Meeting held on 20 November 2019 the Directors were authorised to allot shares up to an aggregate nominal amount of £869,222, the authority shall expire 15 months from the date of Annual General Meeting or, if earlier, at the conclusion of the Annual General Meeting of the Company on 19 November 2020.

Share Based Payments

The Group operates both approved and unapproved share option schemes.

The fair value is calculated at the grant date and ultimately expensed in the Consolidated Statement of Comprehensive Income over the vesting period, based on the best available estimate of the number of share options expected to vest, with a corresponding credit to reserves. Upon exercise of the share options the proceeds received net of attributable transaction costs are credited to share capital and where appropriate share premium.

There were a number of options granted during the course of the financial year to 27 June 2020 with further details given below.

Date of grant	Number of options granted	Number of options expected to vest	Exercise price	Fair value £000	Amount expensed in year to 27 June 2019 £000	Period of expense
28 October 2019	3,833,219	3,833,219	nil	2,207	488	3.0 years
28 October 2019	1,063,325	1,063,325	nil	560	124	3.0 years
Charge relating to options granted in the current year					612	
(Credit) relating to options granted in prior years					(467)	
Charge included in Administrative expenses					**145**	

There were a number of options granted during the course of the financial year to 29 June 2019 with further details given below:

Date of grant	Number of options granted	Number of options expected to vest	Exercise price	Fair value £000	Amount expensed in year to 29 June 2019 £000	Period of expense
21 January 2019	596,757	596,757	nil	211	34	2.4 years
21 January 2019	585,409	585,409	nil	241	39	4.4 years
Charge relating to options granted in the current year					73	
Charge relating to options granted in prior years					623	
Charge included in Administrative expenses					**696**	

Notes to the Consolidated Financial Statements/Continued

25. Share Capital/Continued

Details of share options outstanding at 27 June 2020 and movements during the year by exercise price is shown below:

Exercise price	First exercise date	Last exercise date	At 29 June 2019	Granted	Forfeited	Cancelled/ lapsed	Exercised	**At 27 June 2020**
nil	Sep 2018	Dec 2025	77,743	-	-	-	(27,439)	**50,304**
nil	Jul 2019	Jun 2025	1,811,706	-	-	-	(1,811,706)	**-**
nil	Jul 2020	Dec 2025	1,131,978	-	-	-	-	**1,131,978**
nil	Jul 2022	Oct 2027	753,469	-	-	(753,469)	-	**-**
nil	Sep 2020	Oct 2027	825,724	-	(39,965)	(785,759)	-	**-**
nil	Jul 2023	Jan 2029	585,409	-	-	-	-	**585,409**
nil	Sep 2021	Jan 2029	596,757	-	(29,695)	-	-	**567,062**
nil	Sep 2022	Oct 2029	-	3,833,219	-	-	-	**3,833,219**
nil	Jul 2024	Oct 2029	-	1,063,325	-	-	-	**1,063,325**
			5,782,786	4,896,544	(69,660)	(1,539,228)	(1,839,145)	**7,231,297**

A summary of share options outstanding and movements for the year to 29 June 2019 is shown below:

	At 30 June 2018	**Granted**	**Forfeited**	**Cancelled/ lapsed**	**Exercised**	**At 29 June 2019**
Number of options	6,382,904	1,182,166	(52,036)	(1,450,713)	(279,535)	5,782,786

There were 1,182,282 options exercisable at the period end date (2019: 77,743). There were 1,839,145 options exercised during the year (2019: 279,535). There were 1,539,228 options that lapsed during the year where performance conditions have not been met in full. The average share price at dates of exercise was 98 pence per share (2019: 68 pence per share).

The options outstanding at the year end have weighted average exercise price of Nil (2019: nil) and a weighted average remaining contractual life of 2.2 years (2019: 1.4 years).

The Company uses a Monte Carlo model for the valuation of the award subject to relative performance to the TSR of AIM listed companies. An external consultant assists with the valuation of the awards.

The key inputs into the Monte Carlo model are as follows:

	2020	2019
Expected life of option	**3.0 years**	3.0 years
Volatility of share price	**29%**	23%
Dividend yield	**4.3%**	4.0%
Risk free discount rate	**0.5%**	0.8%
Share price at grant date	**82.0p**	82.5p
Exercise price	**nil**	nil

26. Dividends

The Coronavirus crisis has had a profound impact on the economy and heightened uncertainty around future economic recovery; the Board took the decision as announced on 29 March 2020, to withdraw its proposed interim dividend. While the Board remains committed to the payment of dividends, it believes it is prudent to conserve the Group's cash at this time of heightened instability. The Board will assess the Group's cash position and the outlook for the business at time of the full year results, and will adjust its approach to the final dividend accordingly.

During the year a dividend of £844,000 (2019: £890,000) was paid to the holders of the non-controlling interest in Lightbody Stretz Ltd.

27. Commitments

At the financial year ended 27 June 2020, the Group had capital expenditure commitments of £108,000 (2019: £105,000).

Since the 27 June 2020 the Group is in the final stages to provide a guarantee to the Memory Lane defined benefit pension scheme for the Scheme's s.179 deficit at 31 December 2018 which is circa £13,780,000. The guarantee is capped at the lower of £13,780,000 and the s.179 deficit calculated at the latest triennial valuation. The guarantee will persist until the Scheme is fully funded on a s.179 basis. Any additional contributions made by the sponsoring employer will reduce the guarantee cap. The employer will look to review the terms of the guarantee as part of the Scheme's 2021 valuation, but there is no legal obligation to change it. This is disclosed as at the date these Financial Statements are signed, it is deemed that it is reasonably certain this guarantee will be provided.

Notes to the Consolidated Financial Statements/Continued

28. Non-cancellable Leases

The Group has annual commitments under non-cancellable leases expiring within two months to eighteen years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. The leases relate to land and buildings, fork lift trucks and equipment. Land and buildings have been considered separately for lease classification. Land and buildings amounts relate to leasehold properties at the Nicholas & Harris site, Fletchers' sites in London and Manchester, Johnstone's site in East Kilbride and Ultraeuropa in Poland.

This is the first set of the Group's Financial Statements in which IFRS 16 has been applied. The Group has adopted IFRS 16 from 30 June 2019 using the modified retrospective approach, comparatives have not been restated. The reclassifications and adjustments from the new leasing rules are therefore recognised in the opening Consolidated Statement of Financial Position on 30 June 2019. Under IFRS 16 the previous operating leases charge has been replaced by the depreciation on the right of use asset and interest on the lease liability. The impact on the Consolidated Statement of Financial Position as at 27 June 2019 and the Consolidated Statement of Comprehensive Income for the 52 weeks to 27 June 2020 are shown in Note 11.

During the previous year £1,571,000 was recognised as an expense in the Consolidated Statement of Comprehensive Income in respect of operating leases under IAS 17.

Commitments for minimum lease payments not in scope of IFRS 16 for 2020 and for 2019 in relation to non-cancellable operating leases (under IAS 17) are as follows:

	Land and Buildings		Other	
	2020 £000	2019 £000	**2020 £000**	2019 £000
On leases which expire in:				
Less than one year	**-**	2,531	**192**	676
Between one and five years	**-**	6,741	**8**	593
More than five years	**-**	5,045	**-**	-
	-	14,317	**200**	1,269

29. Related Parties

Related Party Transactions and Directors' Material Interests in Transactions

A 50% owned subsidiary, Lightbody Stretz Ltd, paid SCI Coysevox £68,500 (2019: £67,000) in respect of rent for offices. No balances were outstanding at either year end. Lightbody Europe received £12,654 for accountancy and administration services (2019: £16,000) from FoodHub and an additional £6,295 for royalties (2019: £11,000). Mr P Stretz, the Managing Director of Lightbody Stretz Ltd, being the related party.

The Group paid £nil (2019: £nil) for the supply of finished products from and received £nil (2019: £27,000) for the sale of finished products to FoodHub, a company 50% owned by Mr P Stretz. The amount payable and receivable at the year end was £nil (2019: £nil) and £1,000 (2019: £3,000) respectively.

Transactions with the Memory Lane Pension Scheme are detailed in Note 14.

Transactions with Key Management Personnel

Directors of the Company and their immediate relatives control 3% (2019: 3%) of the voting shares of the Company.

The aggregate compensation of key management personnel (Main Board Executive Directors, Divisional MDs, and Executive Committee) is as follows:

	2020 £000	2019 £000
Company contributions to money purchase pension schemes	**47**	56
Executive salaries and benefits	**1,816**	1,708
	1,863	1,764

Share options held by Group Directors are set out in Note 6. Details of share options outstanding at 27 June 2020 for other key management personnel by exercise price is shown in the table below.

Exercise price	**Number of options at 27 June 2020**	Number of options at 29 June 2019	Earliest exercise date	Exercise expiry date
nil	**1,286,925**	-	28/10/2022	28/10/2029
nil	**259,929**	259,929	30/09/2021	21/01/2029
nil	**-**	304,068	02/07/2020	26/10/2027
nil	**-**	-	30/09/2019	29/09/2026
nil	**34,298**	61,737	30/09/2018	04/12/2025
	1,581,152	625,734		

Notes to the Consolidated Financial Statements/Continued

30. Prior Year Acquisition

On 3 September 2018 the Group acquired the entire share capital of Ultrapharm Limited (Ultrapharm) for £16.9 million plus up to £3.0 million payable in annual instalments to the period to 30 June 2021 and a final incentive payment subject to performance criteria over the period to 30 June 2021. No provision has been made for an incentive payment as the criteria are not currently expected to be met. As a specialist 'Free From' bakery, the business has an extensive product range including bread, buns and rolls and other morning goods. Ultrapharm has a diverse customer base with long term blue-chip customers, including Finsbury itself, where it supplies Free From products to Lightbody Europe.

The cash outflow under 'purchase of companies' of £16,915,000 on the face of the Consolidated Cash Flow Statement in the 52 weeks ended 29 June 2019 relates to the following:

	£000
Initial consideration	14,869
Debt settled	2,792
Cash acquired	(746)
Cash consideration (excluding acquisition costs)	16,915
Working capital adjustment	(60)
Discounted deferred consideration net of deferred taxation	2,737
Total consideration including working capital adjustment	19,592

The acquisition had the following effect on the Group's assets and liabilities:

	Fair value and book value £000
Acquiree's net assets at acquisition date:	
Property, plant and equipment	5,766
Stock	1,200
Trade and other receivables	2,392
Deferred tax liability	(381)
Trade and other payables	(2,652)
Net identifiable assets	6,325
Intangible	1,721
Goodwill	11,546
	19,592

The post-acquisition revenue included within 52 weeks ended 29 June 2019 amounts to £15,690,000 (including £2,584,000 of inter-company sales) and an operating profit of £295,000.

31. Post Consolidated Statement of Financial Position Events

Against a macro-economic backdrop that continues to be defined by high levels of uncertainty, encouragingly, sales continued to improve month-on-month in the first two months of the new financial year. As the recent tightening of restrictions designed to curtail the spread of the virus have demonstrated, though, it remains difficult to forecast potential bumps in the road and the impact they may have. The trajectory of sales in our foodservice business in particular is sensitive to this type of policy change. While it is hard to say when levels of demand will return to normal in this division – or what normal looks like longer-term – we continue to carefully manage our resources and operations to meet demand levels in an appropriate and sustainable way. Given the ongoing market uncertainty we are unable to provide guidance at this time.

Looking ahead, we will continue to monitor and respond to the pandemic as it evolves, working more closely with our customers and global brand partners than ever before to ensure we anticipate changing demand patterns and manufacture products and ranges that meet changing consumer needs. We have delivered a robust performance in the circumstances to date, and are confident that with the comprehensive optimisation of the business that has taken place in the past few years and the extensive operational improvements that have been introduced and accelerated as a result of the pandemic, we are well-positioned to continue to successfully navigate the challenges we face.

We remain focused on becoming the leading speciality bakery group and, notwithstanding coronavirus-related disruption, we have continued to make good progress towards that goal. There will inevitably be further obstacles to overcome as the pandemic plays out and with Brexit approaching, but there is a sense of cautious optimism in the business, and we are confident that by continuing to manage the business in a disciplined and pragmatic way, we will emerge a stronger, more streamlined and efficient organisation capable of delivering sustainable growth and healthy returns for shareholders.

32. Ultimate Parent Company

Finsbury Food Group Plc is the ultimate Parent Company.