

## Notes to the Company's Financial Statements

(forming part of the Financial Statements)

### 33. Accounting Policies

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

#### Basis of Preparation

The financial year was the 52 weeks ended 27 June 2020 (prior financial year 52 weeks ended 29 June 2019).

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

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

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

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

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

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

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

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

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

#### Investments

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

#### Foreign Currency

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

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the Consolidated Statement of Comprehensive Income in the period in which they arise.

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

#### Derivative Financial Instruments

The Company has derivative financial instruments in respect of interest rate swaps and foreign exchange hedges. The Company does not hold derivative financial instruments for trading purposes. The existing interest rate swaps and foreign exchange hedges used by the Company while they function as hedges, do not meet the criteria for hedge accounting set out by IFRS 9, and have thus been treated as financial assets and liabilities which are carried at their fair value in the Company Balance Sheet. Fair value is deemed to be market value, which is provided by the counterparty at the year-end date.

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

## Notes to the Company's Financial Statements/Continued

### 33. Accounting Policies/Continued

#### Non-derivative Financial Instruments

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

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

#### Trade and Other Payables

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

#### Cash and Cash Equivalents

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

#### Interest-bearing Borrowings

Interest-bearing borrowings are stated at amortised cost using the effective interest method.

#### Share Based Payment Transactions

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

#### Taxation

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

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

#### Going Concern

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. Since the start the Company has been guided by clear priorities to protect employees, safeguard supply, respond to new patterns of consumer demand and to preserve cash. The response by the Company to mitigate cash outflows was swift and proportionate with prioritisation and limitation of capital expenditure, salary reductions across senior executives, use of the furlough scheme and cancellation of interim dividend. We have continued with our close working relationship with our banking partners and have full support with a reset of debt:EBITDA covenant tests at 26 December 2020 and 26 June 2021. Net bank debt levels had decreased over the year by £9.1 million to £26.5 million with a net bank debt to adjusted EBITDA measure of 1.1x down from 1.4x at 29 June 2019.

With knowledge and experience since lockdown a bottom-up full-year 2021 budget and strategic forecast to June 2023 has been compiled. Our supply chain and manufacturing have been robust when faced with unprecedented fluctuation in demand. Revenue trends have improved over the final quarter, with April 24% down year on year, May, 19% down and June 14% down. The Group has a debt facility to February 2023 of £55.0 million with scope for the facility to be increased by up to a further £35.0 million, providing increased capacity for the Group to explore future growth opportunities and support its long-term investment strategy and the Group has a relatively conservative level of debt to earnings.

Having due consideration of the financial projections, the level of debt, and available facilities, it is the opinion of the Directors that the Group has adequate resources to continue in operation for the foreseeable future and, therefore, consider it appropriate to prepare the Financial Statements on the Going Concern basis. Further details are set out in the basis of preparation.

#### Shares held by Employee Share Trusts

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

### 34. Remuneration of Directors

Details of Directors' remuneration are set out in Note 6 of the Group's Financial Statements.

## Notes to the Company's Financial Statements/Continued

**35. Staff Numbers and Costs**

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

	Number of employees	
	2020	2019
Directors and administrative staff	97	53

The aggregate payroll costs of these persons were as follows:

	2020 £000	2019 £000
Wages and salaries	7,971	4,467
Social security costs	978	500
Other pension costs	460	306
	<b>9,409</b>	<b>5,273</b>

**36. Share Based Payments**

Details of Directors' share options are set out in Note 6 of the Group's Financial Statements and details of all share options issued are set out in Note 25 to the Group Financial Statements. During the year 3,537,222 (2019: 887,208) of the total 4,896,544 (2019: 1,182,166) share options granted were issued to employees of the Company. The remaining options were granted to employees of the subsidiary companies with corresponding charges to the relevant profit and loss accounts. The total charge in the financial year to the Company for all share options relating to current and prior years was £145,000 (2019: £545,000). Credits relating to options exercised, cancelled or lapsed after vesting have also been passed to the subsidiaries during the year. The charge totalled £105,000 (2019: credit £26,000) and has resulted in a decrease (2019: decrease) in the total cost of investments in the Company balance sheet. Details of Directors' share options are set out in Note 6 of the Group's Financial Statements.

**37. Finance Income and Cost**

Recognised in the Company Statement of Comprehensive Income

	2020 £000	2019 £000
<b>Finance income</b>		
Inter-group recharge	-	426
Bank interest receivable	17	16
Income from interest rate swap agreements	44	60
Total finance income	<b>61</b>	<b>502</b>
<b>Finance cost</b>		
Change in fair value of interest rate swaps	(386)	(382)
Bank interest payable	(946)	(965)
Inter-group recharge	(127)	-
Unwinding of discount on deferred consideration	(14)	(139)
Total finance cost	<b>(1,473)</b>	<b>(1,486)</b>
Net finance cost	<b>(1,412)</b>	<b>(984)</b>

**38. Dividends**

On 23 December 2019, a final dividend of 2.34p per share was paid to shareholders on the register at the close of business on 22 November 2019, the amount paid was £2,974,642.

The Coronavirus crisis and the associated lockdown effective from 23 March 2020 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.

## Notes to the Company's Financial Statements/Continued

## 39. Investment in Subsidiaries

Set out below are all undertakings of the Company whose results are included in the Consolidated Financial Statements for the period ended 27 June 2020.

Subsidiary	Registered address	Direct/ Indirect ownership	Country of incorporation	Class of shares held	2020	2019
Anthony Alan Foods Ltd	Maes-y-coed Rd, Cardiff, CF14 4XR	Direct	England and Wales	Ordinary	£1 <b>100%</b>	100%
California Cake Company Ltd	73 Bothwell Rd, Hamilton, ML3 0DW	Indirect	Scotland	Ordinary	£1 <b>100%</b>	100%
California Cake Company (Holdings) Ltd	73 Bothwell Rd, Hamilton, ML3 0DW	Direct	Scotland	Ordinary	£1 <b>100%</b>	100%
Campbells Cake Company Ltd	73 Bothwell Rd, Hamilton, ML3 0DW	Indirect	Scotland	Ordinary	£1 <b>100%</b>	100%
Campbells Cake (Holdings) Ltd	73 Bothwell Rd, Hamilton, ML3 0DW	Direct	Scotland	Ordinary	£1 <b>100%</b>	100%
Fennel Acquisition Ltd	Maes-y-coed Rd, Cardiff, CF14 4XR	Direct	England and Wales	Ordinary	£1 <b>100%</b>	100%
Fletchers Bakeries Ltd	Maes-y-coed Rd, Cardiff, CF14 4XR	Indirect	England and Wales	Ordinary	£1 <b>100%</b>	100%
Fletchers Bakeries Investment Ltd	Maes-y-coed Rd, Cardiff, CF14 4XR	Indirect	England and Wales	Ordinary	£1 <b>100%</b>	100%
Goswell Enterprises Ltd	Maes-y-coed Rd, Cardiff, CF14 4XR	Indirect	England and Wales	Ordinary	£1 <b>100%</b>	100%
Goswell Marketing Ltd	Maes-y-coed Rd, Cardiff, CF14 4XR	Indirect	England and Wales	Ordinary	£1 <b>100%</b>	100%
Johnstone's Foodservice Ltd	73 Bothwell Rd, Hamilton, ML3 0DW	Indirect	Scotland	Ordinary	£1 <b>100%</b>	100%
Lifestyle Healthcare Ltd	Maes-y-coed Rd, Cardiff, CF14 4XR	Direct	England and Wales	Ordinary	£1 <b>50%</b>	50%
Lifestyle Healthcare Ltd	Maes-y-coed Rd, Cardiff, CF14 4XR	Indirect	England and Wales	Ordinary	£1 <b>50%</b>	50%
Johnstone's Foodservice Ltd	73 Bothwell Rd, Hamilton, ML3 0DW	Indirect	Scotland	Ordinary	£1 <b>100%</b>	100%
Lightbody Celebration Cakes Ltd	73 Bothwell Rd, Hamilton, ML3 0DW	Indirect	Scotland	Ordinary	£1 <b>100%</b>	100%
Lightbody Group Ltd	73 Bothwell Rd, Hamilton, ML3 0DW	Direct	Scotland	Ordinary	£1 <b>100%</b>	100%
Lightbody Holdings Ltd	73 Bothwell Rd, Hamilton, ML3 0DW	Indirect	Scotland	Ordinary	£1 <b>100%</b>	100%
Lightbody of Hamilton Ltd	73 Bothwell Rd, Hamilton, ML3 0DW	Indirect	Scotland	Ordinary	£1 <b>100%</b>	100%
Lightbody-Stretz Ltd	73 Bothwell Rd, Hamilton, ML3 0DW	Indirect	Scotland	Ordinary	£1 <b>100%</b>	100%
Lightbody Europe SAS	14 Allée Coysevox, CS 56939, 35069 Rennes Cedex France	Indirect	France	Ordinary	£1 <b>50%</b>	50%
Memory Lane Cakes Ltd	Maes-y-coed Rd, Cardiff, CF14 4XR	Direct	England and Wales	Ordinary	1p <b>100%</b>	100%
Nicholas & Harris Ltd	Maes-y-coed Rd, Cardiff, CF14 4XR	Indirect	England and Wales	Ordinary	£1 <b>100%</b>	100%
Storesurvey Ltd	Maes-y-coed Rd, Cardiff, CF14 4XR	Direct	England and Wales	Ordinary	£1 <b>100%</b>	100%
Ultrapharm Ltd	Maes-y-coed Rd, Cardiff, CF14 4XR	Direct	England and Wales	Ordinary	£1 <b>100%</b>	100%
Ultraeuropa SP. z o.o.	Maes-y-coed Rd, Cardiff, CF14 4XR	Indirect	Poland	Ordinary	£1 <b>100%</b>	100%

## Notes to the Company's Financial Statements/Continued

## 40. Investments

	€000
<b>Cost</b>	
At beginning of financial year	118,529
Impairment	(6,527)
At end of financial year	112,002
<b>Net book value</b>	
<b>At 27 June 2020</b>	<b>112,002</b>
At 29 June 2019	118,529

## Impairment

The reassessment of carrying values of the Company's investment in subsidiaries which resulted in a reduction to the valuation of Ultrapharm at the year end, were carried out on the investments held in the Company. The value in use at a discount rate of 9.5% is €14.0 million, the cost of investment is €17.5 million, therefore an impairment of €3.5 million has been recognised. A further impairment has been taken on Anthony Alan Foods of €3.0 million that had previously been impaired. Note 10 details the considerations supporting an impairment of Ultrapharm goodwill.

## 41. Deferred Tax

## Recognised deferred tax assets and liabilities:

	Assets		Liabilities	
	2020 €000	2019 €000	2020 €000	2019 €000
Employee share Scheme charges	390	574	-	-
Interest rate swaps	40	-	-	(30)
Discounting of deferred consideration	-	-	(31)	(30)
Short-term temporary differences	8	5	-	-
Tax assets/(liabilities)	438	579	(31)	(60)
Net tax assets	407	519	-	-

The deferred tax asset at 27 June 2020 has been calculated based on the rate of 19% substantively enacted at the balance sheet date.

## 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
Employee share scheme	574	-	(2)	(182)	390
Interest rate swaps	(30)	-	70	-	40
Discounting of deferred consideration	(30)	-	(1)	-	(31)
Short-term timing differences	5	-	3	-	8
	519	-	70	(182)	407

## Movement in Deferred Tax during the Prior Year

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

## Notes to the Company's Financial Statements/Continued

## 42. Debtors

	2020 £000	2019 £000
Amounts owed by Group undertakings	52,277	45,533
Other taxation	101	95
Prepayments and accrued income	378	265
	<b>52,756</b>	<b>45,893</b>

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

## 43. Forward Foreign Exchange Contracts at Fair Value

There were no forward currency contracts in place in the Company at the year end. At the year ended 29 June 2019 the Company had entered into a number of forward foreign exchange contracts to minimise the impact of fluctuations in exchange rates. There was no charge to current year or previous year relating to the movement in the fair value of contracts.

## 44. Creditors: Amounts Falling Due Within One Year

	2020 £000	2019 £000
Trade creditors	78	146
Amounts due to Group undertakings	20	20
Corporation tax	62	62
Other taxes and social security	196	156
Accruals and deferred income	5,064	5,020
Deferred consideration*	481	1,000
Provisions closure of Grain D'Or site	450	-
	<b>6,351</b>	<b>6,404</b>

Amounts due to Group undertakings are classified as current as they are repayable on demand. Provision for closure of Grain D'Or site has been passed to the Company from a Group undertaking to ensure that it is managed centrally.

Deferred consideration\* is the consideration payable for the Ultrapharm acquisition payable in quarterly instalments to 1 October 2022.

## Other Financial Liabilities – Fair Value Interest Rate Swaps

The Company has two interest rate swaps. A five-year swap from 3 July 2017 with a coverage of £20.0 million fixed at a rate of 0.455% and a three-year swap from 28 March 2019 with a coverage of £5.0 million fixed at a rate of 1.002%. There was 94% coverage at year end (2019: 53%).

A charge of £386,000 (2019: £382,000 charge) is shown in finance expenses (2019: expense) for the year reflecting changes in the fair values of interest rate swaps. The fair values are liabilities as a result of the current low levels of base and LIBOR interest rates.

## Notes to the Company's Financial Statements/Continued

**45. Interest-Bearing Loans and Borrowings**

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

2020	Currency	Margin	Frequency of repayments	Year of maturity	Facility £000	Total £000	Current £000	Non-current £000
Revolving credit	GBP	1.5%/LIBOR	Varies	2023	£55,000	36,184	-	36,184
Unamortised transaction costs						(175)	-	(175)
						36,009	-	36,009
Leases*	GBP	2.2%	Quarterly	Varies		2,248	1,099	1,149
Total debt including leases						38,257	1,099	37,158

  

2019	Currency	Margin	Frequency of repayments	Year of maturity	Facility £000	Total £000	Current £000	Non-current £000
Revolving credit	GBP	1.5%/LIBOR	Varies	2023	£55,000	47,144	-	47,144
Unamortised transaction costs						(248)	-	(248)
						46,896	-	46,896
Operating leases (under IAS 17) at 30 June 2019 on transition to IFRS 16	GBP	2.2%	Quarterly	Varies		3,803	1,252	2,551
Total debt at 30 June 2019 on transition to IFRS 16						50,699	1,252	49,447

Leases\* include all leases recognised as lease liabilities under IFRS 16 (see Note 11).

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.

**46. Creditors: Amounts Falling Due After More Than One Year**

	2020 £000	2019 £000
Deferred consideration	1,357	1,824
Provisions closure of Grain D'Or site	392	-
Fair value derivatives	210	-
Deferred tax liability	30	60
	<b>1,989</b>	<b>1,884</b>

Deferred consideration is the consideration payable for the Ultrapharm acquisition payable in quarterly instalments to 1 October 2022.

**47. Called Up Share Capital**

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

**48. Capital and Reserves**

The reconciliation of the movement in capital and reserves is shown as a primary statement in the Company's Financial Statements: Company Statement of Changes in Equity on page 101 with definition details in Note 24 to the Consolidated Financial Statements.

**49. Contingent Liabilities**

The Company has guaranteed the overdrafts of its subsidiaries; there was a net cash position at the year end of £10,173,000 (2019: £12,358,000).

**50. Related Party Disclosures**

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

**51. Financial Risk Management**

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