Independent Auditors' Report to the Members of Finsbury Food Group Plc

Report on the Audit of the Financial Statements

Opinion

In our opinion:

- Finsbury Food Group Plc's Group Financial Statements and Company Financial Statements (the "Financial Statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 26 June 2021 and of the Group's profit and the Group's cash flows for the 52 week period then ended;
- The Group Financial Statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- The Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- The Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements, included within the Annual Report and Consolidated Financial Statements (the "Annual Report"), which comprise: Consolidated Statement of Financial Position and Company Balance Sheet as at 26 June 2021; Consolidated Statement of Comprehensive Income, Consolidated and Company Statements of Changes in Equity and Consolidated Cash Flow Statement for the period then ended; and the notes to the Financial Statements, which include a description of the significant accounting policies.

Basis for Opinion

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

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our Audit Approach

Overview

Audit Scope

- We performed a full-scope audit procedures in respect of the Group's five largest manufacturing locations as well as Finsbury Food Group Plc; and
- Our audit procedures covered entities contributing 88% of the Group's revenues for the 52 week period ended 26 June 2021.

Key Audit Matters

- Goodwill impairment assessment (Group);
- Recoverability of the Company investments in subsidiaries (Parent); and
- Impact of the outbreak of Covid-19 on the Financial Statements (Group and Parent).

Materiality

- Overall Group materiality: £1.6m (2020: £1.5m) based on 0.5% of total revenues;
- Overall Company materiality: £1.5m (2020: £1.5m) based on 1% of total assets (restricted by Group materiality); and
- Performance materiality: £1.1m (Group) and £1.1m (Company).

The Scope of our Audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the Financial Statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Key Audit Matters

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

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

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Key audit matter	How our audit addressed the key audit matter
Goodwill Impairment Assessment (Group) At 26 June 2021, the Consolidated Statement of Financial Position includes £73.2 million of goodwill (2020: £73.2 million). In accordance with the requirements of IAS in conformity with the requirements of the Companies Act 2006, management has performed impairment reviews in relation to the goodwill held in the Group's cash generating units (CGUs). Management has prepared value in use calculations for each of the CGUs using board approved strategic plans. The impairment reviews include significant estimates and judgements in respect of future growth rates and cash flows, and the discount rate employed. An impairment of £7.5 million was recognised in the prior year in relation to the Ultrapharm CGU as a result of slower than expected development.	We obtained the relevant CGU cash flow forecasts supporting management's calculation of value in use and evaluated the appropriateness of key assumptions. We assessed the methodology used by management in performing the assessments and challenged key inputs. Our procedures included: • Verifying the accuracy of the underlying calculations in the model and agreeing the cash flow forecasts to the plan approved by the Board; • Evaluating the appropriateness of forecast cash flows by understanding management's process for forecasting, examining the support for forecast cash flows and assessing CGU specific cash flow assumptions such as testing the exclusion of cash flows to improve or enhance the CGU's performance; • Evaluating the appropriateness of the projected revenue growth rates used, both over the short-term to 2024 and over the longer-term, including assessing and challenging the assumptions over the impact of Covid-19 on trading; • Consideration of prior year and current performance in comparison to projected results; • Considering the impact of a range of sensitivities to assess the impact of reasonably possible changes in key assumptions to those used by management; • Evaluating the appropriateness of discount rates used, which included comparing the rate used to other similar companies; • Evaluating other key inputs to the cash flows, including the forecast margins and capital expenditure; and • Reviewing management's disclosures in the Financial Statements. We believe that the assumptions in the value in use model and the conclusion reached that no impairment is required is reasonable. We also believe that the disclosures in note 10 of the Financial Statements in respect of sensitivities that would result in impairment are appropriate. We consider that the carrying value of the goodwill balance is materially correct and we believe that the disclosures in the Financial Statements are appropriate.
Recoverability of the Company Investments in Subsidiaries (Parent) At 26 June 2021, the Company's Statement of Financial Position included £112.1 million of investments in subsidiaries (2020: £112.0m). In accordance with the requirements of IAS in conformity with requirements of the Companies Act 2006, management has performed an analysis comparing the carrying amount of the investments with the calculated value in use (noted above). No impairment has been recognised in the current year. The impairment reviews include significant estimates and judgements in respect of future growth rates and cash flows, and the discount rate employed. An impairment of £3.5 million was recognised in the prior year in relation to the Ultrapharm business, due to slower than expected development. An impairment in relation to Anthony Alan Foods was also recognised in the prior year, as there were no future cash flows to consider hence an impairment charge of £3.0 million is recognised to write the balance of this investment down to nil.	We obtained the relevant subsidiary's cash flow forecasts supporting management's assessments and evaluated the appropriateness of key assumptions. We assessed the methodology used by management in performing the assessments and challenged and evaluated key inputs including: • Verifying the accuracy of the underlying calculations in the model and agreeing the cash flow forecasts to the plan approved by the Board; • Evaluating the appropriateness of forecast cash flows by understanding management's process for forecasting, examining the support for forecast cash flows and assessing subsidiary or CGU specific cash flow assumptions such as testing the exclusion of cash flows to improve or enhance the subsidiary or CGU performance; • Evaluating the appropriateness of the projected revenue growth rates used, both over the short-term to 2024 and over the longer-term, including assessing and challenging the assumptions over the impact of Covid-19 on trading; • Consideration of prior year and current performance in comparison to projected results; • Considering the impact of a range of sensitivities to assess the impact of reasonably possible changes in key assumptions to those used by management; • Evaluating the appropriateness of discount rates used, which included comparing the rate used to other similar companies; • Evaluating other key inputs to the cash flows, including the forecast margins and capital expenditure; and • Reviewing management's disclosures in note 38 of the Financial Statements. We consider the carrying value of the investment balance to be materially correct.

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Key audit matter	How our audit addressed the key audit matter
Impact of the Outbreak of Covid-19 on the Financial Statements (Group and Parent) In March 2020 the global pandemic from the outbreak of Covid-19 became significant and is causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. Covid-19 has had a large impact on Finsbury Food Group Plc both operationally and further in relation to the forecasted future demand for product and consequential impact on funding and cash flow management. It has impacted the results of the Group and Company for the 2021 financial year to date and is expected to continue to impact the Group and Company for some of 2021/22 whilst economies continue to recover, albeit the severity of the impact is expected to reduce over time. Disclosure of the risk to the Group and Company of Covid-19 and management's conclusions on going concern and have been included within the relevant sections of the Annual Report.	We critically assessed management's assessment of the impact of Covid-19. We considered: • The timing of the development of the outbreak across the world and in the UK; and • How the Financial Statements and business operations of the Group and Company might be impacted by the disruption. In forming our conclusions over going concern, we evaluated whether management's going concern assessment considered impacts arising from Covid-19. Our procedures in respect of going concern included: • We made enquiries of management to understand the potential impact of Covid-19 on the Company's financial performance, business operations and financial position; • We reviewed management's going concern assessment, based upon the bottom-up full year 2022 budget and strategic forecast to June 2024, to ensure the impacts of Covid-19 have been appropriately reflected; and • We have challenged the key assumptions in this assessment, including the availability of sufficient facilities and cash resources and compliance with future banking covenants. Refer to our first and second Key Audit Matter above for details of how we considered the impact of Covid-19 in our procedures over the recoverability of goodwill and investments. Based on the work performed, we are satisfied that the matter has been appropriately evaluated and reflected in the Financial Statements and concur with management's assessment that the impact of Covid-19 has not had a significant impact on the going concern assessment. We also assessed the adequacy of disclosures related to Covid-19 included in the notes of the Financial Statements and assessed these to be appropriate.

How We Tailored the Audit Scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the Financial Statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group has six main manufacturing sites across the UK, together with a distribution centre in France, operations in Poland, and a head office location based in the UK. Each manufacturing site has its own accounting team and the financial reporting for Finsbury Food Group Plc is undertaken by a team based at the head office.

Of the Group's 9 reporting components, 5 are considered to be financially significant components of the Group, given the significant revenue generated at these locations. All of these components were based in the UK and full scope audit procedures were led by the Group engagement team. The Group engagement team also audited the Parent Company, which was scoped in accordance with the Company materiality and focused on the investment carrying value and the revolving credit facility held by the Company.

Our audit addressed components making up 90% of the Group's revenues for the period.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the Financial Statements as a whole.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

	Financial Statements – Group	Financial Statements – Company
Overall materiality	£1.6m (2020: £1.5m)	£1.5m (2020: £1.5m)
How we determined it	0.5% of total revenues	1% of total assets (restricted by Group materiality)
Rationale for benchmark applied	Revenue is a key metric used by management and investors and given the relative volatility of profit before tax in recent years, this was considered to be a more consistent metric in line with prior year.	We determined our materiality based on total assets, which is more applicable than a performance-related measure as the Company is primarily an investment holding Company for the Group. However, as this materiality was greater than overall Group materiality, we have restricted the entity materiality.

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For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £0.6 million to £1.5 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £1.1m for the Group Financial Statements and £1.1m for the Company Financial Statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount in the middle of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £78,000 (Group audit) (2020: £72,000) and £74,000 (Company audit) (2020: £72,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions Relating to Going Concern

Our evaluation of the Directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating the appropriateness of forecast cash flows by understanding management's process for forecasting and examining the support for forecast cash flows;
- Evaluating the appropriateness of the projected revenue growth rates used, over the next 12-18 months, including assessing the assumptions over the impact of Covid-19 on trading;
- Consideration of prior year and current performance in comparison to projected results. The Group were ahead of budget for the 2020/21 year and are currently performing ahead of budget for the 2021/22 year;
- Considering the impact of a range of sensitivities to assess the impact of reasonably possible changes in key assumptions to those used by management;
- Evaluating other key inputs to the cash flows, including the forecast margins and capital expenditure. These are consistent historic trends and spend;
- Reviewed covenant calculations to ensure no covenant breaches in the current year and no forecast covenant breaches throughout the period, there are no current or forecast breaches;
- Performed sensitivities on the covenant calculations to assess headroom, which showed significant decreases in EBITDA would be required in order for covenants to be breached; and
- Assessed current and forecast headroom for the Group in relation to their available cash facility, which shows clear headroom throughout the assessment period.

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

In auditing the Financial Statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

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

Reporting on Other Information

The other information comprises all of the information in the Annual Report other than the Financial Statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the Financial Statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the period ended 26 June 2021 is consistent with the Financial Statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Independent Auditors' Report to the Members of Finsbury Food Group Plc/Continued

Responsibilities for the Financial Statements and the Audit

Responsibilities of the Directors for the Financial Statements

As explained more fully in the Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements, the Directors are responsible for the preparation of the Financial Statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to food and hygiene laws, health and safety regulations, environmental legislation, AIM listing regulations, pension legislation, employment laws and tax legislation, and we considered the extent to which non-compliance might have a material effect on the Financial Statements. We also considered those laws and regulations that have a direct impact on the Financial Statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the Financial Statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries to manipulate financial results and potential management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Evaluation of the adequacy of the design of management's controls to prevent and detect irregularities;
- Enquiry of management around known or suspected instances of non-compliance with laws and regulations and fraud;
- Review of minutes of meetings of those charged with governance;
- Challenge assumptions made by management in its significant accounting estimates; and
- Identifying and testing the validity of journal entries, in particular any journal entries posted with unusual account combinations and consolidation journals.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the Financial Statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this Report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other Required Reporting

Companies Act 2006 Exception Reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- We have not obtained all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- The Company Financial Statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Jason Clarke (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors, Cardiff
17 September 2021