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 26 June 2021 (prior financial year is the 52-week period ended 27 June 2020). 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 accounting standards in conformity with the requirements of the Companies Act 2006. The "requirements of the Companies Act 2006" here means accounts in accordance with "international accounting standards" as defined in section 474(1) of that Act, as it applied immediately before Implementation Period ('IP') completion day (end of transition period), including where the Group also makes use of standards which have been adopted for use within the United Kingdom in accordance with regulation 1(5) of the International Accounting Standards and the European Public Limited Liability Company (Amendment etc.) (EU Exit) Regulations 2019, these are presented on pages 99 to 107.

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 economic recovery. The extent and duration of social distancing measures will impact demand and the workforce. The grocery sector has been heavily impacted by the pandemic as consumers respond to the ever-evolving situation particularly with the new variants of the virus and the speed of the vaccination roll out programme. 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 demonstrated a robust performance driven by a resilient supply chain and production network in order 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. The hospitality sector outdoors and take home grocery sales remain strong driven by measures of lockdown easing and continued drinking and eating at home with consumer behaviour adjusting to the unwinding of lockdown measures. Demand recovery is anticipated across businesses at different rates with category demand evolving. We should expect different paces of correction for different markets, dictated by factors such as weather, holidays and working patterns. When considering going concern judgement has to be made as to the extent of disruption, the ongoing challenges and the speed of recovery. 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 with a further accordion available of £35.0 million, net bank debt at the year end was £13.1 million. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance 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.

The performance of the Group has been robust and resilient with strong trading driven by improving volume performance and the benefits of the Group's Operating Brilliance Programme. 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 Company is commercially dependant on Finsbury Food Group Plc. Philippe Stretz through Phaste EURL is 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 analyses whether the treatment of these items is consistent with accounting policies and practice.

  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.

- **Impairment of 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).

  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 with consumer behaviour adjusting to the unwinding of lockdown measures. 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.

- **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 relate to acquired businesses. Based on current and forecast levels of profitability, the losses are expected to be utilised within two years. If profits declined by 30% the losses would be utilised within three 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 is consolidated into the Group accounts as a subsidiary with a corresponding non-controlling interest on the basis that the Company is commercially dependant on Finsbury Food Group Plc. Philippe Stretz through Phaste EURL is 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 26 June 2021.

- Amendment to IFRS 16 "Leases" – Covid-19 related rent concessions (effective 1 June 2020);
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (effective on or after 1 January 2021 with early application permitted); and
- Amendments to IFRS 17 and IFRS 4 "insurance contracts", deferral of IFRS 9, as amended June 2020 (effective on or after 1 January 2021).

None of the amendments to the above standards had a material impact on the Financial Statements.

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 2022);
- Amendments to IAS 16 – Property, Plant and Equipment (effective 1 January 2022);
- Amendments to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets (effective 1 January 2022);
- Amendments to IAS 1, Practice statement 2 and IAS 8 – Accounting policies, Changes in Accounting Estimates and Errors (effective 1 January 2022);
- Annual improvements to IFRS standards 2018-2020 – IFRS 1, IFRS 9, IAS 41 (effective 1 January 2022); and
- Amendments to IAS 1 – Presentation of Financial Statements on Classification of Liabilities (effective 1 January 2023).

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.

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.

Notes to the Consolidated Financial Statements/Continued

1. Significant 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 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.

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 18 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 June 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.

Notes to the Consolidated Financial Statements/Continued

1. Significant Accounting Policies/Continued

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.

The Company changed its accounting policy in the prior year for leases where the Company is the lessee to comply with IFRS 16. 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.

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 27 June 2020. The weighted average incremental borrowing rate applied was 2.21%.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are 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.

Notes to the Consolidated Financial Statements/Continued

1. Significant Accounting Policies/Continued

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 (see Note 14).

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.

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.

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 the 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.

Notes to the Consolidated Financial Statements/Continued

1. Significant Accounting Policies/Continued

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.

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 foodservice 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 foodservice 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 UK bakery segment also made sales directly to overseas markets.

Revenue	UK bakery		Overseas		Total Group	
52 weeks to 26 June 2021 and 52 weeks to 27 June 2020	**2021 £000**	2020 £000	**2021 £000**	2020 £000	**2021 £000**	2020 £000
Total	**273,633**	271,414	**39,625**	34,934	**313,258**	306,348

Reportable Segments	**52 weeks to 26 June 2021 £000**	52 weeks to 27 June 2020 £000
Revenue UK bakery	**273,633**	271,414
Revenue overseas	**39,625**	34,934
Total revenue	**313,258**	306,348
Adjusted operating profit UK bakery	**13,609**	13,162
Adjusted operating profit overseas	**2,491**	1,777
Total adjusted operating profit	**16,100**	14,939
Significant non-recurring impairment	**-**	(8,737)
Significant non-recurring other	**958**	(1,594)
Defined Benefit Pension Scheme	**473**	200
Fair value foreign exchange contracts	**696**	(73)
Operating profit	**18,227**	4,735
Finance income	**89**	61
Finance expense	**(1,303)**	(1,928)
Net finance cost	**(1,214)**	(1,867)
Profit before taxation	**17,013**	2,868
Taxation	**(3,368)**	(2,761)
Profit for the financial year	**13,645**	107

The Group has three customers (2020: three) which individually account for 10% or more of the Group's total revenue. These customers individually account for 23%, 12% and 10%. In the prior year these same three customers accounted for 21%, 12% and 10% of the revenue in the 52 weeks to 27 June 2020. In addition to the Europe sales disclosed in Reportable Segments, the Group also made sales to European markets through UK-based organisations.

3. Administrative Expenses and Auditors' Remuneration

Included in profit are the following:

	2021 £000	2020 £000
Amortisation of intangibles	**1,817**	1,734
Depreciation of owned tangible assets	**7,235**	7,656
Depreciation on right-of-use assets	**1,752**	1,919
Impairment of fixed assets	**167**	1,237
Impairment of goodwill	-	7,500
Loss on foreign exchange	**235**	213
Variable lease payments	**203**	193
Expenses relating to short-term and low-value leases	**51**	164
Movement on fair value of foreign exchange contracts	**(696)**	73
Research and development	**2,124**	2,244
Share option charges	**1,001**	145

Auditors' remuneration:

	2021 £000	2020 £000
Audit of these Financial Statements	**50**	50
Audit of the Financial Statements of subsidiaries of the Company	**133**	118
Other services	**41**	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:

	2021 £000	2020 £000
Release of onerous lease and closure costs provision	**1,340**	-
Litigation and legal costs	**(388)**	-
Commissioning costs	-	(257)
Impairment of goodwill (refer to Note 10)	-	(7,500)
Impairment of fixed assets (refer to Note 12)	**(167)**	(1,237)
Other reorganisation people costs	**173**	(1,337)
	958	(10,331)

The release of provisions includes £0.8 million of lease costs avoided due to successful re-letting of closed sites plus £0.4 million of related closure costs and £0.2 million of unused reorganisation provisions. Legal costs have been accrued in relation to a dispute and costs of £0.2 million relating to fixed assets are the final impairment at Cardiff.

In the prior year we had the impairment of unused assets in Cardiff and an impairment of goodwill on the Ultrapharm acquisition based on trading at the time as well as re-organisation costs relating to changes made in response to the 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 2021	2020
Production	**2,659**	2,654
Selling and distribution	**150**	117
Administration, technical, new product development	**399**	406
	3,208	3,177

The aggregate payroll costs of these persons were as follows:

	2021 £000	2020 £000
Wages and salaries	**78,944**	77,913
Share option charges	**1,001**	145
Social security costs	**7,596**	6,987
Charge in respect of defined benefit plans	**490**	200
Charge in respect of defined contribution pension plans	**2,085**	2,099
	90,116	87,344

6. Remuneration of Directors

	2021 £000	2020 £000
Fees	**253**	234
Executive salaries	**748**	690
	1,001	924

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid Director was £438,000 (2020: £404,000), 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 was nil (2020: 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 26 June 2021 £000	Year ended 27 June 2020 £000
P Baker	85	-	-	-	**85**	79
R Beveridge	55	-	-	-	**55**	51
S A Boyd	-	300	10	-	**310**	286
J G Duffy	-	428	10	-	**438**	404
R P E Duignan	58	-	-	-	**58**	53
M J Millard	55	-	-	-	**55**	51
	253	728	20	-	**1,001**	924

During the previous year 602,819 shares were issued to J G Duffy and 382,075 shares were issued to S A Boyd in settlement of the exercise of share options. During the year awards over 1,200,346 shares under the long-term incentive plan (LTIP) were granted to Directors in the form of nil cost options (2020: 2,007,470). The vesting of the awards is conditional upon performance conditions over a three-year period commencing 28 June 2020 and are subject to a further two-year 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 26 June 2021	Number of options at 27 June 2020	Exercise price	Earliest exercise date	Exercise expiry date
S A Boyd	**476,364**	476,364	nil	01/07/2020	04/12/2025
S A Boyd	**-**	241,147	nil	07/07/2023	21/01/2029
S A Boyd	**395,365**	395,365	nil	28/10/2022	28/10/2029
S A Boyd	**438,015**	438,015	nil	30/06/2024	28/10/2029
S A Boyd	**494,458**	-	nil	01/07/2024	22/10/2030
J G Duffy	**655,614**	655,614	nil	01/07/2020	04/12/2025
J G Duffy	**-**	344,262	nil	07/07/2023	21/01/2029
J G Duffy	**548,780**	548,780	nil	28/10/2022	28/10/2029
J G Duffy	**625,310**	625,310	nil	30/06/2024	28/10/2029
J G Duffy	**705,888**	-	nil	01/07/2024	22/10/2030
	4,339,794	3,724,857			

The mid-market price of the ordinary shares on 26 June 2021 was 92.5p (2020: 59.3p) and the range during the 52-week period to 26 June 2021 was 51.2p to 96.0p (2020: 53.0p to 104.0p).

7. Finance Income and Cost

Recognised in the Consolidated Statement of Comprehensive Income

	2021 £000	2020 £000
Finance income		
Interest on interest rate swap agreements	**-**	44
Change in fair value of interest rate swaps	**89**	-
Bank interest receivable	**-**	17
Total finance income	**89**	61
Finance cost		
Interest on net pension position	**(224)**	(256)
Interest on interest rate swap agreements	**(119)**	(386)
Bank interest payable	**(545)**	(999)
Unwinding of discount on deferred consideration	**(105)**	(14)
Interest on deferred consideration	**(36)**	-
Lease liabilities	**(274)**	(273)
Total finance cost	**(1,303)**	(1,928)

Notes to the Consolidated Financial Statements/Continued

8. Taxation

Recognised in the Consolidated Statement of Comprehensive Income

	2021 £000	2020 £000
Current tax		
Current year	**3,277**	2,762
Adjustments for prior years	**(263)**	6
Total current tax	**3,014**	2,768
Deferred tax		
Origination and reversal of temporary differences	**95**	130
Rate change	**252**	(222)
Adjustments for prior years	**7**	85
Total deferred tax	**354**	(7)
Total tax expense	**3,368**	2,761

Reconciliation of Effective Tax Rate

The weighted average hybrid rate of UK, Polish and French tax is 20.5% (2020: 22.6%). The tax assessed for the period is lower (2020: higher) than the hybrid rate of UK and French tax. The UK corporation tax rate for the period is 19.0% (2020: 19.0 %). The differences are explained below:

	2021 £000	2020 £000
Profit before taxation	**17,013**	2,868
Non-deductible intangible impairment	**-**	7,500
	17,013	10,368
Tax using the UK corporation tax rate of 19.00% (2020: 19.00%)	**3,232**	1,970
Overseas profits charged at different taxation rate	**151**	439
Non-deductible expenses and timing differences	**480**	479
Restatement of opening net deferred tax due to rate change and differences in rates	**298**	(218)
RandD reclaim	**(537)**	-
Adjustments to tax charge in respect of prior periods	**(256)**	91
Total tax expense	**3,368**	2,761

The UK corporation tax rate increase from 19% to 25% from 1 April 2023 was substantively enacted in March 2021. The deferred tax assets and liabilities at 26 June 2021 have been calculated based on a rate at which they are expected to crystallise which is likely to be 19% or 25%.

The adjustment of £256,000 for the prior year includes ineligible capital spends 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 £239,000 (2020: £182,000) 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/(loss) 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 125,805,000 (2020: 127,128,000).

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 26 June 2021, the diluted weighted average number of shares in issue was 132,753,000, (2020: 130,820,000).

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/(loss) Per Ordinary Share/Continued

	52 weeks to 26 June 2021	52 weeks to 27 June 2020
	£000	£000
Profit		
Profit/(loss) attributable to equity holders of Company (basic)	**12,347**	(759)
Significant non-recurring and other items	**(1,514)**	10,223
Intangible amortisation net of deferred tax	**574**	574
Numerator for adjusted earnings per share calculation (adjusted basic)	**11,407**	10,038

	Basic '000	Diluted '000	Basic '000	Diluted '000
Shares				
Weighted average number of ordinary shares in issue during the period	125,805	125,805	127,128	127,128
Dilutive effect of share options	-	6,948	-	3,692
	125,805	132,753	127,128	130,820

	Basic pence	Diluted pence	Basic pence	Diluted pence
Earnings/(loss) per share				
Basic and diluted	9.8	9.3	(0.6)	(0.6)
Adjusted basic and adjusted diluted	9.1	8.6	7.9	7.7

Significant non-recurring and other items net of taxation are tabled in the Strategic Report on page 36 and comprise: significant non-recurring income £776,000 (2020: £1,291,000 charge), Defined Benefit Pension Scheme income £187,000 (2020: charge £45,000), fair value of interest rate swaps, foreign exchange contracts income £636,000 (2020: £372,000 charge), the unwinding of deferred consideration discounting charge £85,000 (2020: charge £13,000) and impairment of goodwill and fixed assets in the prior year of £8,502,000.

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 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
Additions	-	1,045	-	-	1,045
Transfers from tangible fixed assets	-	165	-	-	165
Cost at 26 June 2021	**85,004**	**11,387**	**3,683**	**7,630**	**107,704**
Accumulated amortisation at 30 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)
Charge for the year	-	(1,108)	(143)	(566)	(1,817)
Accumulated amortisation at 26 June 2021	**(11,790)**	**(2,959)**	**(1,788)**	**(3,148)**	**(19,685)**
Net book value at 30 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
Net book value at 26 June 2021	**73,214**	**8,428**	**1,895**	**4,482**	**88,019**

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 20 years for brands and between ten and 15 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 throughout varying degrees of lock-down and recoveries, a bottom-up full year 2022 budget and strategic forecast to June 2024 has been compiled.

The forecasts have taken in consideration the following key factors:

1. Post Covid-19 recovery of sales in full for FY 2022 with bounce-back of foodservice demand.
2. Latest market forecast and market research data has been considered when making commercial judgements.
3. Detailed SWOT analysis of all businesses with a strategic plan to respond to challenges.
4. Plans to combat inflationary pressures particularly labour costs in UK and Europe.
5. Detailed plans supporting strategic initiatives and strategy into action with continued focus in the Operating Brilliance Programme, Process Blueprint, value engineering, asset management and care.
6. Organisational design and engagement activity to provide bakery teams to support our strategy.

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 cash flows beyond this forecast are extrapolated to perpetuity using a 1.5% (2020: 1.1%) growth rate for all of the CGUs with the exception of Ultrapharm where growth of 2.9% (2020: 2.9%) has been assumed. 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 2020 to review consumer and competitor insight to prepare the foundations for the financial forecasts. The strategic forecasts have included assumptions on the post lockdown environment and the journey to recovery. We have been encouraged by the performance in retail and the recovery in the foodservice sector, with revenue trends improving since the initial lockdown in March 2020.

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 5.8% to 9.1%, reflecting the recovery from the lower base year and budget year that have been impacted by the Covid-19 pandemic and the business wins during the pandemic.

A post-tax discount rate of 8.2% (2020: 7.6%) has been used in these calculations, the equivalent pre tax rates are 11.0% (2020:9.2%). 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 increased over the prior year rate as a result of a lower debt position and an increase in the risk-free rate. 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 cash flows were compared against the carrying amount of goodwill, plant property and equipment and right-of-use assets. The discount rates are shown in the table below:

	Carrying value of goodwill		Post-tax discount rate at which headroom is nil		Pre-tax discount rate at which headroom is nil	
	2021 £000	2020 £000	**2021 %**	2020 %	**2021 %**	2020 %
Lightbody of Hamilton	**45,698**	45,698	**17.2**	17.2	**22.9**	20.7
Fletchers Bakery	**20,118**	20,118	**12.9**	10.3	**17.2**	12.4
Ultrapharm	**4,046**	4,046	**9.6**	7.9	**12.8**	9.5
Nicholas and Harris	**2,980**	2,980	**44.3**	42.6	**59.1**	51.3
Johnstone's Food Service	**372**	372	**122.8**	76.6	**163.7**	92.3
	73,214	73,214				

Impairment

The post-tax discount rate at which the headroom is nil for Fletchers Bakery is 12.9%. There are key strategies and plans in place in order to improve the performance of Fletchers. Increased volumes have been budgeted as schools, hospitality and leisure industries re-open after Covid-19 lockdown closures, decrease in retail demand has been considered as the hospitality industry begins to re-open. A strong bounce-back is anticipated in out-of-home and growth in buns and rolls with strategic partnering, new product development opportunities, by growing our own bakery foodservice brand and working with strategic end-user customers. There are also further opportunities to drive margin mix upwards through value added and value engineering, price and new development. 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 26 June 2021.

The post-tax discount rate at which the headroom is nil for Ultrapharm Limited is 9.6%. There are key strategies in place in order to improve the performance of Ultrapharm. Targeted new product development recruitment and a better understanding of intellectual property has been a key breakthrough in developing new and existing product development with new products being launched in the year to 26 June 2021. Growth with our retail partners is driven by the developments of new products and improved customer confidence. There are also further opportunities in accelerating growth in our own gluten-free brand. 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 Ultrapharm Limited at 26 June 2021.

Sensitivity analyses have been carried out by the Directors on the carrying value of all remaining goodwill using post-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, which would not result in an impairment. These include:

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

Traction has been gained over the period impacted by the pandemic in Group-wide initiatives to instil the Finsbury ways of working throughout. A more engaged workforce, standardised processes, asset care and management and supply chain initiatives are driving improvements in efficiencies across the Group to strengthen our growth position.

Prior Year Impairment

An impairment charge was taken against the Ultrapharm cash generating units in the prior year. The business proved more immature than expected and additional resource was invested into both the UK and Polish businesses. We faced commercial issues (in part relating to a small warranty claim) exacerbated by Covid-19 which had adversely affected cash flows and hence valuation. We believe the gluten-free sector remains attractive and that performance will meet our expectations over time. The conclusion was that, considering all those factors that the business was overvalued. The strategic forecast revenues and profits had been sensitised and a downside forecast had been considered giving reduced cash flow assumptions, which when compared to the carrying value of assets had indicated an impairment was necessary. A non-cash impairment of £7.5 million was recognised in the prior year's financial results. The downside forecast had been used as a basis for calculating the impairment charge. Revenue in this forecast was expected to grow over the next three years at an annual growth rate of 10%.

Notes to the Consolidated Financial Statements/Continued

11. Leases

The Group adopted IFRS 16 from 30 June 2019 using the modified retrospective approach. 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.

(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	**26 June 2021 £000**	27 June 2020 £000
Property plant and equipment owned	12	**49,432**	52,302
Right-of-use assets	12	**9,583**	9,434
		59,015	61,736

Included within right-of-use assets in the table above are assets with a net book value of £1,188,000 (2020: £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**
Balance at 28 June 2020	8,859	1,763	10,622
Additions	1,648	253	1,901
Depreciation charge for the year	(1,349)	(403)	(1,752)
Balance at 26 June 2021	**9,158**	**1,613**	**10,771**

Additions include new assets acquired and remeasurement of leases. Depreciation for the period to 26 June 2021 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 26 June 2021 of £9,434,000.

Lease Liabilities

	At 26 June 2021 £000	At 27 June 2020 £000
Lease liability recognised	**10,745**	12,295
Current lease liability	**2,039**	3,191
Non-current lease liability	**8,706**	9,104

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

	At 26 June 2021 £000	At 27 June 2020 £000
Interest on lease liabilities	**(274)**	(273)
Variable lease payments not included in the measurement of lease liabilities	**(203)**	(193)
Expenses relating to short-term leases	**(36)**	(164)
Expenses relating to low-value assets, excluding short-term leases of low-value assets	**(14)**	(16)

(iii) Amounts Recognised in the Cash Flow Statement

	At 26 June 2021 £000	At 27 June 2020 £000
Total cash outflow for lease rentals	**2,789**	3,362

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 2019	36,610	83,286	5,531	2,559	127,986
Exchange adjustments	-	(155)	-	-	(155)
Additions	753	5,122	158	(1,503)	4,530
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
Exchange adjustments	(138)	(65)	(218)	139	(282)
Additions	3,295	2,825	252	674	7,046
Disposals	(225)	(2,143)	-	-	(2,368)
Transfers	159	(244)	(70)	(10)	(165)
Balance at 26 June 2021	**39,942**	**88,294**	**5,653**	**1,859**	**135,748**
Accumulated depreciation and impairment					
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)
Exchange adjustments	-	(29)	-	-	(29)
Depreciation charge for the financial period	(2,059)	(6,589)	(339)	-	(8,987)
Impairment (Note 4)	-	(167)	-	-	(167)
Disposals	157	2,066	-	-	2,223
Transfers	205	(261)	64	-	8
Balance at 26 June 2021	**(13,333)**	**(58,603)**	**(4,797)**	**-**	**(76,733)**
Net book value					
At 30 June 2019	26,611	37,636	1,370	2,559	68,176
At 27 June 2020	25,215	34,298	1,167	1,056	61,736
At 26 June 2021	**26,609**	**29,691**	**856**	**1,859**	**59,015**

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).

13. Other Financial Assets and Liabilities

	2021 £000	2020 £000
Current assets – derivatives		
Fair value of interest rate swaps	-	-
Fair value of foreign exchange contracts	**405**	-
Total of derivatives with positive fair values	**405**	-
Current liabilities – derivatives		
Fair value of interest rate swaps	**(121)**	(210)
Fair value of foreign exchange contracts	-	(291)
Total of derivatives with negative fair values	**(121)**	(501)

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 (2020: £25.0 million).

An income of £89,000 (2020: charge £386,000) is shown in the 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. An income of £696,000 (2020: charge £73,000) 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 £2,085,000 (2020: £2,099,000).

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 (2020: nil), 157 deferred pensioner members (2020: 168) and 235 pensioner members (2020: 229).

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 26 June 2021 relating to Defined Benefit Pension are based on a full actuarial valuation dated 31 December 2018.

A £490,000 contribution was paid during the financial year by Memory Lane Cakes Limited (2020: £200,000). The Group's contribution has been agreed based on the outcome of the full actuarial valuation dated 31 December 2018. 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.

The full actuarial valuation differs from the financial year end valuation deficit of £14,529,000 (2020: £15,174,000). 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.

Notes to the Consolidated Financial Statements/Continued

14. Pension Schemes/Continued

	2021 £000	2020 £000
Fair value of plan assets	**20,803**	19,607
Present value of defined benefit obligations	**(35,332)**	(34,781)
Deficit recognised	**(14,529)**	(15,174)

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

	2021 £000	2020 £000
Multi-asset growth fund	**8,222**	12,617
Gilts	**5,731**	-
Liability hedging portfolio (gilts/swaps)	**2,505**	2,856
Other	**1,949**	1,704
Property	**1,523**	717
Cash	**873**	1,713
Fair value of plan assets	**20,803**	19,607
Actual return on plan assets	**1,551**	959

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

	2021 £000	2020 £000
Movements in present value of defined benefit obligation		
At beginning of financial year	**(34,781)**	(30,550)
Past service costs	**(17)**	-
Interest on plan obligations	**(515)**	(687)
Benefits paid	**845**	790
Remeasurement – loss from changes to financial assumptions	**(324)**	(4,334)
Remeasurement – loss from changes to demographic assumptions	**(540)**	-
At end of financial year	**(35,332)**	(34,781)
Movements in fair value of plan assets		
At beginning of financial year	**19,607**	19,238
Interest on plan assets	**291**	431
Return on plan assets less interest	**1,260**	528
Benefits paid	**(845)**	(790)
Contributions by employer	**490**	200
At end of financial year	**20,803**	19,607

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.

14. Pension Schemes/Continued

	2021 £000	2020 £000
Expense recognised in the Consolidated Statement of Comprehensive Income		
Past service costs	**(17)**	-
Interest on plan assets/finance income	**291**	431
Interest on plan obligations/finance expense	**(515)**	(687)
Total expense	**(241)**	(256)
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	**(16,941)**	(13,135)
Recognised in the financial year – return on plan assets less interest	**1,260**	528
Recognised in the financial year – experience gains on liabilities	**-**	-
Recognised in the financial year – loss(gain) from changes to financial assumptions	**(324)**	(4,334)
Recognised in the financial year – gains from changes to demographic assumptions	**(540)**	-
Cumulative amount at end of financial year	**(16,545)**	(16,941)

	2021 %	2020 %
Principal long-term actuarial assumptions at the year end		
CPI price inflation assumption	**2.85**	2.35
Increases to pensions in payment	**2.85**	2.35
Discount rate for liabilities	**1.95**	1.50
Rate of return for plan assets	**1.95**	1.50

The differential between the assumed rate of inflation and the discount rate for liabilities is 0.90% (2020: 0.85%).

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 26 June 2021, with discount rates based on the yields on long-dated high-quality corporate bonds. The discount rate is higher 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 8.5% (2020: 5.0%). 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, while uncertainty and volatility remain a feature of the current equity markets.

Changing the year end 2021 assumptions to those of 2020 year end listed above, the deficit would have been £13,670,000 compared to the reported deficit of £14,529,000.

	2021	2020
Post-retirement mortality assumption	**S3NA tables with CMI 2017 (core parameters) projections and 1.25% pa long-term rate of improvement**	S3NA tables with CMI 2017 (core parameters) 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:

	2021	2020
Male currently at age 45	**24.1**	24.1
Female currently at age 45	**26.5**	26.4
Male currently at age 65	**22.7**	22.7
Female currently at age 65	**25.1**	25.0
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 on the previous page. The following table summarises changes in these assumptions and their approximate (decrease)/increase in liabilities.

	2021
Discount rate plus 0.5%	**(£2.91 million)**
Discount rate minus 0.5%	**£3.32 million**
Inflation plus 0.5%	**£2.87 million**
Inflation minus 0.5%	**(£2.96 million)**
Life expectancy plus 1.0 years	**£1.49 million**
Life expectancy minus 1.0 years	**(£1.52 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 19 years.

Risk Mitigation Strategies

The Scheme's investments include partial interest rate and inflation hedging. All of the Scheme's investments meet the criteria detailed in the SIP relevant for the Scheme year to 31 December 2018.

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

The long-term nature of the Scheme, coupled with the risks mentioned above, means that there is a large amount of uncertainty over the Scheme's projected future cash flows. The estimated duration of the liabilities is around 19 years. 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 £788,000 (2020: £435,000) which includes deficit recovery contributions, pension protection fund levy fees and cost of advisers. The increase in costs is largely driven by the increased deficit recovery contributions of £290,000. The Company expects to pay deficit recovery contributions of £500,000 in the year to 2 July 2022. The projected net interest charge to the Consolidated Statement of Comprehensive Income for the year to 2 July 2022 is £279,000. This projection assumes cash flows 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

	2021 £000	2020 £000	2019 £000	2018 £000	2017 £000
Fair value of plan assets	**20,803**	19,607	19,238	18,834	19,985
Present value of the defined benefit obligation	**(35,332)**	(34,781)	(30,550)	(29,370)	(30,483)
Deficit	**(14,529)**	(15,174)	(11,312)	(10,536)	(10,498)
Experience adjustments on plan assets	**1,260**	528	384	(779)	712
as a percentage of plan assets	**6.1%**	2.7%	2.0%	(4.1%)	3.6%
Experience adjustments on plan liabilities	**-**	-	1,614	-	-
as a percentage of plan liabilities	**0.0%**	0.0%	(5.3%)	0.0%	0.0%
Total remeasurement gains/(losses)	**396**	(3,806)	(332)	(172)	(4,031)
as a percentage of plan liabilities	**1.1%**	10.9%	1.1%	0.6%	13.2%

Notes to the Consolidated Financial Statements/Continued

15. Inventories

	2021 £000	2020 £000
Raw materials and consumables	**6,715**	6,311
Finished goods	**8,312**	8,307
	15,027	14,618

Inventories Recognised as an Expense

	2021 £000	2020 £000
Opening inventories	**14,618**	14,805
Purchases	**139,094**	138,180
(Decrease)/increase in stock provisions	**(320)**	321
Closing inventories	**(15,027)**	(14,618)
Expensed during the period	**138,365**	138,688

Inventories are stated after provisions for impairment of £865,000 (2020: £1,097,000).

16. Trade and Other Receivables

	2021 £000	2020 £000
Trade receivables due from third parties	**45,799**	36,007
Other debtors	**4,051**	2,356
Prepayments and accrued income	**1,136**	1,640
	50,986	40,003

Trade receivables due from third parties are stated after provisions for impairment of £1,094,000 (2020: £795,000).

17. Cash and Cash Equivalents Including Bank Overdrafts

	2021 £000	2020 £000
Cash at bank and on hand	**24,227**	24,181
Bank overdraft	**(14,704)**	(14,008)
	9,523	10,173

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.

2021 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	22,431	-	22,431
Leases*	Various	Monthly	Various		10,745	2,039	8,706
Unamortised transaction costs					(108)	-	(108)
					33,068	**2,039**	**31,029**

* 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.

2021	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	22,431	-	22,431
Finance lease (under IAS 17)	Various	Monthly	2023		220	128	92
Unamortised transaction costs					(108)	-	(108)
Total bank debt					**22,543**	**128**	**22,415**
Operating leases (under IAS 17)	2.2%	Varies			10,525	1,911	8,614
Total debt					33,068	2,039	31,029

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

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 24.

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 (2020: £55.0 million plus a further £35.0 million accordion). At the period end date, the facility utilised was £22.4 million (2020: £36.2 million), giving £32.6 million (2020: £18.8 million) headroom plus a further £35.0 million (2020: £35.0 million) accordion.

Notes to the Consolidated Financial Statements/Continued

19. Analysis of Net Bank Debt

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 27 June 2020 £000	Cash flow £000	**At year ended 26 June 2021 £000**
Cash and cash equivalents	10,173	(650)	**9,523**
Debt due after one year	(36,184)	13,753	**(22,431)**
Hire purchase obligations due within one year	(247)	119	**(128)**
Hire purchase obligations due after one year	(225)	133	**(92)**
Total net bank debt	(26,483)	13,355	**(13,128)**

20. Trade and Other Payables

	2021 £000	2020 £000
Current		
Trade creditors	**38,943**	30,512
Other creditors including taxes and social security	**2,409**	2,046
Accruals and deferred income	**21,138**	16,303
	62,490	48,861

21. Provisions

	Site closure £000	**Pension £000**	**Total £000**
Balance at the beginning of the financial year	843	178	1,021
Released during the year	(502)	-	(502)
Utilised during the financial year	(137)	-	(137)
Balance at the end of the financial year	**204**	**178**	**382**
Current provisions	204	18	222
Non-current provisions	-	160	160

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 increase in the number of units successfully re-let during the year has led to the release of provisions relating to the ongoing costs that are no longer required.

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 12 years.

22. Deferred Consideration

The deferred consideration relates to the acquisition of Ultrapharm Limited (Ultrapharm) for £16.9 million plus up to £3.0 million, £1.5 million of which is outstanding at the 26 June 2021 and payable in quarterly instalments to October 2022. Discounted amounts payable within one year of the Consolidated Statement of Financial Position date is £976,000 and amounts due beyond one year is £466,000. Amounts charged to finance expenses during the year for the unwinding of the discounting is £36,000 (2020: £14,000).

Notes to the Consolidated Financial Statements/Continued

23. Deferred Tax Assets and Liabilities

Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2021 £000	2020 £000	**2021 £000**	2020 £000
Intangibles	**-**	-	**(1,594)**	(1,346)
Property, plant and equipment	**-**	-	**(1,262)**	(740)
Foreign exchange contracts	**-**	55	**(77)**	-
Short-term temporary differences	**38**	38	**-**	-
Interest rate swaps	**23**	40	**-**	-
Discounting of deferred consideration	**-**	-	**(11)**	(31)
Pension Scheme charges	**3,632**	2,883	**-**	-
Employee Share Scheme charges	**669**	391	**-**	-
Losses acquired	**1,599**	1,216	**-**	-
Tax assets/(liabilities)	**5,961**	4,623	**(2,944)**	(2,117)
Net tax assets/(liabilities)	**3,017**	2,506		

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 two years.

Movement in Deferred Tax during the Year

	28 June 2020 £000	Recognised in minority interest £000	Recognised in income £000	Recognised in equity £000	**26 June 2021 £000**
Intangibles	(1,346)	-	(248)	-	**(1,594)**
Property, plant and equipment	(740)	-	(522)	-	**(1,262)**
Foreign exchange contracts	55	(35)	(97)	-	**(77)**
Short-term temporary differences	38	-	-	-	**38**
Interest rate swaps	40	-	(17)	-	**23**
Discounting of deferred consideration	(31)	-	20	-	**(11)**
Pension Scheme	2,883	-	(62)	811	**3,632**
Employee Share Scheme	391	-	189	89	**669**
Losses acquired	1,216	-	383	-	**1,599**
	2,506	(35)	(354)	900	**3,017**

	30 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

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

24. 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 26 June 2021.

		Contractual cash flows including estimated interest				
At year ended 26 June 2021	**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	**(22,431)**	(22,431)	-	(22,431)	-	-
Trade creditors	**(38,943)**	(38,943)	(38,943)	-	-	-
Lease liabilities	**(10,745)**	(10,745)	(2,039)	(1,850)	(2,638)	(4,218)
Other lease liabilities	**-**	(19)	(18)	(1)	-	-
	(72,119)	(72,138)	(41,000)	(24,282)	(2,638)	(4,218)

		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)

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

24. 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. The Group recognises loss allowances for expected credit losses ("ECLs") on financial assets measured at amortised cost. 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 £45.8 million (2020: £36.0 million) and the ageing of trade receivables at the period end date was:

	2021 £000	2020 £000
Not past due	**42,176**	32,668
Past due 0-30 days	**2,610**	2,157
Past due 31-120 days	**824**	890
Past due more than 120 days	**189**	292
	45,799	36,007

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 negotiation, and failure to make contractual payments significantly after the 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 £1.0 million past due by more than 30 days is equivalent to less than two days sales (2020: £1.2 million, equivalent to less than two 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 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 have been impacted by varying degrees of lockdown and the inevitable impact on recovery of demand which is likely to remain suppressed until a solution for Covid-19 is found.

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 in order to adapt to the effects of the pandemic. The Group has anticipated and responded quickly and effectively to changes in consumer demand, maximising the benefits of operational initiatives both new and historical thereby enabling the Group to carefully manage resources and deliver a robust performance throughout a period impacted by the pandemic.

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:

	2021 £000	2020 £000
Variable rate liabilities	**(22,431)**	(36,656)

Swaps amounting to £25.0 million (2020: £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.

24. Financial Risk Management/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.

	2021 £000	2020 £000
Profit decrease	**(34)**	(300)
Decrease in net assets	**(34)**	(300)

A 1% decrease in the base rate or LIBOR would have the following impact on interest charges and associated net assets for the Group.

	2021 £000	2020 £000
Profit (decrease)/increase	**(233)**	112
(Decrease)/increase in net assets	**(233)**	112

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 with heightened uncertainty around future economic recovery, the Board took the decision as announced on 29 March 2020, to withdraw its proposed interim dividend. The strong trading, in a period that has been impacted by Covid-19 throughout, has been driven by improving volumes performance and the benefits of the Group's Operating Brilliance Programme. In light of the expected performance and current outlook the Board announced in May 2021 the plan to reintroduce the payment of dividends for the financial year ending 26 June 2021. Given the Group's resilient performance the Board is recommending a full year dividend of 2.4 pence per share for the financial year ending 26 June 2021. 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 0.2 (2020: 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.

25. 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 67.

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

26. Share Capital

	2021 000's	2020 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 (6,194,155 shares were held at the year end). All shares are the same class with equal rights. During the year the EBT purchased 2,946,772 ordinary shares of 1p each in the capital of the Company ("Ordinary Shares") at a price of £0.6774 per Ordinary Share.

At the 2020 Annual General Meeting held on 19 November 2020 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 the Annual General Meeting or, if earlier, at the conclusion of the Annual General Meeting of the Company on 18 November 2021.

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 26 June 2021 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 26 June 2021 £000	Period of expense
22 October 2020	2,192,275	2,192,275	nil	621	246	3.0 years
01 January 2021	91,538	91,538	nil	51	13	3.0 years
Charge relating to options granted in the current year					259	
Charge relating to options granted in prior years					742	
Charge included in administrative expenses					**1,001**	

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 2020 £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**	

Notes to the Consolidated Financial Statements/Continued

26. Share Capital/Continued

Details of share options outstanding at 26 June 2021 and movements during the year by exercise price is shown below:

Exercise price	First exercise date	Last exercise date	At 28 June 2020	Granted	Forfeited	Cancelled/ lapsed	Exercised	At 26 June 2021
nil	Sep 2018	Dec 2025	50,304	-	-	-	-	**50,304**
nil	Jul 2019	Jun 2025	-	-	-	-	-	**-**
nil	Jul 2020	Dec 2025	1,131,978	-	-	-	-	**1,131,978**
nil	Jul 2023	Jan 2029	585,409	-	-	(585,409)	-	**-**
nil	Sep 2021	Jan 2029	567,062	-	(114,819)	(452,243)	-	**-**
nil	Sep 2022	Oct 2029	3,833,219	-	(467,096)	-	-	**3,366,123**
nil	Jul 2024	Oct 2029	1,063,325	-	-	-	-	**1,063,325**
nil	Oct 2023	Oct 2030	-	991,929	-	-	-	**991,929**
nil	Jan 2024	Oct 2030	-	91,538	-	-	-	**91,538**
nil	Jul 2025	Oct 2030	-	1,200,346	-	-	-	**1,200,346**
			7,231,297	2,283,813	(581,915)	(1,037,652)	-	**7,895,543**

A summary of share options outstanding and movements for the year to 27 June 2020 is shown below:

	At 30 June 2019	Granted	Forfeited	Cancelled	Exercised	At 27 June 2020
Number of options	5,782,786	4,896,544	(69,660)	(1,539,228)	(1,839,145)	7,231,297

There were 1,182,282 options exercisable at the period end date (2020: 1,182,282). There were no options exercised during the year (2020: 1,839,145). There were 1,037,652 options (2020: 1,539,228) that lapsed during the year where performance conditions have not been met in full. The average share price at dates of exercise during the prior year was 98.0 pence per share.

The options outstanding at the year end have a weighted average exercise price of nil (2020: nil) and a weighted average remaining contractual life of 1.4 years (2020: 2.2 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:

	2021	2020
Expected life of option	**3.0 years**	3.0 years
Volatility of share price	**29%**	29%
Dividend yield	**4.3%**	4.3%
Risk-free discount rate	**0.5%**	0.5%
Share price at grant date	**82.0p**	82.0p
Exercise price	**nil**	nil

27. Dividends

Given the uncertainty at the outset of the pandemic the Board took the decision to withdraw the interim dividend and also decided not to propose a final dividend in the context of the continued uncertainty surrounding the pandemic and Brexit. The Board is recommending a full year dividend of 2.4 pence per share for the financial year ending 26 June 2021.

During the year a dividend of £722,000 (2020: £844,000) was paid to the holders of the non-controlling interest in Lightbody Stretz Ltd.

28. Commitments

At the financial year ended 26 June 2021, the Group had capital expenditure commitments of £6,000 (2020: £108,000).

The Group has provided 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.

Notes to the Consolidated Financial Statements/Continued

29. Non-Cancellable Leases

The Group has annual commitments under non-cancellable leases expiring within two months to 18 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 and Harris site, Fletchers' sites in London and Manchester, Johnstone's site in East Kilbride and Ultraeuropa in Poland.

The Group adopted IFRS 16 from 30 June 2019 using the modified retrospective approach. 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.

Commitments for minimum lease payments not in scope of IFRS 16 for 2021 and for 2020 in relation to non-cancellable operating leases (under IAS 17) are as follows:

	Other	
	2021 £000	2020 £000
On leases which expire in:		
Less than one year	**18**	192
Between one and five years	**1**	8
More than five years	**-**	-
	19	200

30. Related Parties

Related Party Transactions and Directors' Material Interests in Transactions

A 50% owned subsidiary, Lightbody Stretz Ltd, paid SCI Coysevox £66,000 (2020: £68,500) in respect of rent for offices. No balances were outstanding at either year end. Lightbody Europe received £36,563 for accountancy and administration services (2020: £12,654) from FoodHub and an additional £11,310 for royalties (2020: £6,295). Mr P Stretz, the Managing Director of Lightbody Stretz Ltd, being the related party.

The Group paid £nil (2020: £nil) for the supply of finished products from and received £nil (2020: £nil) 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 (2020: £nil) and £9,590 (2020: £1,000) 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% (2020: 3%) of the voting shares of the Company.

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

	2021 £000	2020 £000
Company contributions to money purchase Pension Schemes	**65**	47
Executive salaries and benefits	**2,416**	1,816
	2,481	1,863

Share options held by Group Directors are set out in Note 6. Details of share options outstanding at 26 June 2021 for other key management personnel by exercise price is shown in the table below.

Exercise price	**Number of options at 26 June 2021**	Number of options at 27 June 2020	Earliest exercise date	Exercise expiry date
nil	**598,176**	-	28/10/2023	22/10/2030
nil	**1,205,745**	1,286,925	28/10/2022	28/10/2029
nil	**-**	259,929	30/09/2021	21/01/2029
nil	**-**	-	02/07/2020	26/10/2027
nil	**-**	-	30/09/2019	29/09/2026
nil	**50,303**	34,298	30/09/2018	04/12/2025
	1,854,224	1,581,152		

31. Ultimate Parent Company

Finsbury Food Group Plc is the ultimate Parent Company and there is no ultimate controlling party.