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

Presentation of Financial Statements

Basis of Preparation
These Financial Statements cover the 53-week period ended 2 July 2022 (prior financial year is the 52-week period ended 26 June 2021). 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, United Kingdom. The Group Financial Statements have been prepared and approved by the Directors in accordance with UK-adopted 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 69 to 104.

The Financial Statements have been prepared on a historic cost basis, except for the following:

- Certain financial assets and liabilities (including derivative instruments), certain classes of property, plant and equipment – measured at fair value or revalued amount;
- Assets held for sale – measured at the lower of carrying amount and fair value less costs to sell; and
- Defined Benefit Pension plans – plan assets measured at fair value.

Going Concern
In the current climate in which we navigate well-publicised macro challenges, relevant judgements and assumptions must be made. The Group continues to operate in a complex trading environment with pressure from inflation, supply chain disruptions, labour availability impacted by the pandemic, political, economic and legislative changes and economic factors linked to the ongoing conflict in Ukraine. The conflict between Russia and Ukraine continues to develop and is likely to have a broad impact on the global economy. Whilst navigating these challenges the health and safety of our employees is a top priority.

When considering going concern, judgement must be made as to the impact of the ongoing macro challenges. Forecasts have been built on a bottom-up basis and stress tested to prepare an approved budget used as a basis for reviewing going concern. Risks and opportunities have been considered, and plausible downside risks have been assessed. 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 June 2027. Committed banking facilities are £60.0 million with a further accordion available of £60.0 million, net bank debt at the year end was £20.6 million. The Group's forecasts and projections, taking account of 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.

We have delivered record revenue performance, a demonstration of the Group's resilience and strategic focus. We continue to reap the benefits of our Operating Brilliance Programme which has been one of the key drivers behind our positive performance.

We have not been immune to the challenges arising from sudden and unexpected input cost inflation over the period. However, we have been able to mitigate the impact of these pressures through commercial negotiation and operational improvements have seen the benefit of these actions in our second half profit performance. We have also been affected by staff shortages and supply chain disruption. We will continue to monitor closely and work through ongoing pressures using the same strategies employed to date. While headwinds are set to persist, we have a successful track record of navigating challenging market conditions, and the steps we have taken to optimise the business to date stand us in good stead.

We have seen recovery in foodservice, steady sales in retail and strong overseas performance and have the benefits of the decisive mitigation actions throughout the year. We continue to see opportunities for significant sales growth through gaining market share in existing areas, and targeted acquisitions, with our increased holding of our French subsidiary to 85% in February reflecting our continued desire to invest behind our European growth.

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.

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:

- **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 macro environment. 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 challenges has been modelled through scenario testing; the scenarios assumed by the Group are:

– A base case; and
– A downside scenario.

Detailed bottom-up budgets have been prepared at business level and sensitivities applied. Further details on sensitivity can be found 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 future profits declined by more than 39% the losses would be utilised within three years. Further tax details can be found in Notes 8 and 23.

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 85% owned by the Group is consolidated into the Group Financial Statements 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 15%.

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 2 July 2022.

- Amendments to IFRS 7, IFRS 4, and IFRS 16 – Interest rate benchmark reform – Phase 2 (effective 1 January 2021);
- Amendments to IFRS 4 Insurance Contracts – Deferral of IFRS 9 (effective 1 January 2021); and
- Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions extension of the practical expedient (effective 1 April 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 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.

Change in Ownership Interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Finsbury Food Group Plc.

When the Group ceases to consolidate or equity account for an investment because of loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the profit or loss. The fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit and loss.

If ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in the other comprehensive income are reclassified to profit and loss where appropriate.

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.

Notes to the Consolidated Financial Statements/Continued

1. Significant Accounting Policies/Continued

Derivative Financial Instruments

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

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

Non-Derivative Financial Instruments

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

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

Trade and Other Receivables

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

Trade and Other Payables

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

Cash and Cash Equivalents

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

Interest-Bearing Borrowings

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

Property, Plant and Equipment

Recognition and Measurement

Items of property, plant and equipment are measured at cost or fair value at the date of acquisition, less accumulated depreciation and impairment provisions. Costs include expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Depreciation

Depreciation is provided to write off the cost, less estimated residual value, of the property, plant and equipment by equal instalments over their estimated useful economic lives to the Consolidated Statement of Comprehensive Income. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The depreciation rates used are as follows:

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

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

Notes to the Consolidated Financial Statements/Continued

1. Significant Accounting Policies/Continued

Leases

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

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

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

Leased assets may not be used as security for borrowing purposes. Until the 2019 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 30 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.

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.

Notes to the Consolidated Financial Statements/Continued

1. Significant Accounting Policies/Continued

Intangible Assets and Goodwill

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

Impairment

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

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

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

Calculation of Recoverable Amount

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

Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is determined on the first-in first-out basis, and includes all direct costs incurred and attributable production overheads. Net realisable value is based upon estimated selling price allowing for all further costs of completion and disposal. Specific provisions are made against old and obsolete stock taking the value to zero or an estimated reduced value based on the most likely route for disposal of each particular item of stock.

Employee Benefits

Defined Benefit Plans

Memory Lane Cakes Limited 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.

1. Significant Accounting Policies/Continued

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.

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.

Notes to the Consolidated Financial Statements/Continued

2. Revenue and Segment Information

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

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 SAS and Ultraeuropa SP.z.o.o., 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	
53 weeks to 2 July 2022 and 52 weeks to 26 June 2021	**2022 £000**	2021 £000	**2022 £000**	2021 £000	**2022 £000**	2021 £000
Total	**306,650**	273,633	**50,158**	39,625	**356,808**	313,258

Reportable Segments	**53 weeks to 2 July 2022 £000**	52 weeks to 26 June 2021 £000
Revenue UK bakery	**306,650**	273,633
Revenue overseas	**50,158**	39,625
Total revenue	**356,808**	313,258
Adjusted operating profit UK bakery	**14,897**	13,609
Adjusted operating profit overseas	**2,910**	2,491
Total adjusted operating profit	**17,807**	16,100
Significant non-recurring impairment	**-**	-
Significant non-recurring other	**(1,898)**	958
Defined Benefit Pension Scheme	**417**	473
Fair value foreign exchange contracts	**(821)**	696
Operating profit	**15,505**	18,227
Finance income	**-**	89
Finance expense	**(1,208)**	(1,303)
Net finance cost	**(1,208)**	(1,214)
Profit before taxation	**14,297**	17,013
Taxation	**(2,709)**	(3,368)
Profit for the financial year	**11,588**	13,645

The Group has two customers (2021: three) which individually account for 10% or more of the Group's total revenue. These customers individually account for 24% and 12%. In the prior year three customers accounted for 23%, 12% and 10% of the revenue in the 52 weeks to 26 June 2021.

Other Segment Information	**53 weeks to 2 July 2022 £000**	52 weeks to 26 June 2021 £000
Assets UK bakery	**225,816**	213,791
Assets overseas	**17,113**	15,145
Liabilities UK bakery	**(109,289)**	(103,541)
Liabilities overseas	**(14,786)**	(12,124)
Depreciation UK bakery	**8,486**	8,060
Depreciation overseas	**907**	927
Amortisation UK bakery	**1,547**	1,817
Amortisation overseas	**-**	-

Notes to the Consolidated Financial Statements/Continued

3. Administrative Expenses and Auditors' Remuneration

Included in profit are the following:

	2022 £000	2021 £000
Amortisation of intangibles	**1,547**	1,817
Depreciation of owned tangible assets	**7,407**	7,235
Depreciation on right-of-use assets	**1,986**	1,752
Impairment of fixed assets	**-**	167
Loss on disposal of property, plant and equipment	**347**	145
Loss on foreign exchange	**213**	235
Variable lease payments	**267**	203
Expenses relating to short-term and low-value leases	**23**	51
Movement on fair value of foreign exchange contracts	**821**	(696)
Research and development	**1,566**	2,124
Share option charges	**1,524**	1,001

Auditors' remuneration:

	2022 £000	2021 £000
Audit of these Financial Statements	**55**	50
Audit of the Financial Statements of subsidiaries of the Company	**144**	133
Other services	**181**	41

Other services relate to aborted acquisition advice and 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 40 of the Financial Review section are the following costs:

	2022 £000	2021 £000
Acquisition costs	**(1,601)**	-
Litigation and legal costs	**(858)**	(388)
Disposal and impairment of fixed assets (refer to Note 12)	**(284)**	(167)
Release of site closure costs provision	**795**	1,340
Other reorganisation people costs	**50**	173
	(1,898)	958

Acquisition costs are those associated with an aborted acquisition during the year. Litigation and legal costs of £0.9 million (2021: £0.4 million) are in relation to a dispute over the consideration paid for an earlier year acquisition and costs of £0.3 million (2021: £0.2 million) relating to fixed assets disposals in the current year and final impairment of assets at Cardiff in the prior year.

The release of site closure provisions of £0.7 million (2021: £0.8 million) relating to lease costs that have been avoided due to successful re-letting of closed site units plus a release of £0.1 million (2021: £0.4 million) of related site closure costs and £0.1 million (2021 £0.2 million) of unused reorganisation provisions.

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 2022	2021
Production	**2,574**	2,659
Selling and distribution	**245**	150
Administration, technical, new product development	**485**	399
	3,304	3,208

The aggregate payroll costs of these persons were as follows:

	2022 £000	2021 £000
Wages and salaries	**87,194**	78,944
Share option charges	**1,524**	1,001
Social security costs	**8,539**	7,596
Charge in respect of defined contribution pension plans	**2,405**	2,085
	99,662	89,626

6. Remuneration of Directors

	2022 £000	2021 £000
Fees	**265**	253
Executive salaries	**1,488**	748
	1,753	1,001

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid Director was £873,000 (2021: £438,000), there were no Company pension contributions made to a Defined Contribution Scheme during the current or prior year. Bonuses of £428,000 were paid in the current year (2021: nil).

There were nil (2021: nil) 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 2 July 2022 £000	Year ended 26 June 2021 £000
P Baker	96	-	-	-	**96**	85
R Beveridge	55	-	-	-	**55**	55
S A Boyd	-	304	11	300	**615**	310
J G Duffy	-	434	11	428	**873**	438
R P E Duignan	58	-	-	-	**58**	58
M J Millard	56	-	-	-	**56**	55
	265	738	22	728	**1,753**	1,001

During the year awards over 796,858 shares under the long-term incentive plan (LTIP) were granted to Directors in the form of nil cost options (2021: 1,200,346). The vesting of the awards is conditional upon performance conditions over a three-year period commencing 27 June 2021 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 2 July 2022	Number of options at 26 June 2021	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	**395,365**	395,365	nil	28/10/2022	28/10/2029
S A Boyd	**266,094**	438,015	nil	03/07/2024	28/10/2029
S A Boyd	**494,458**	494,458	nil	01/07/2025	22/10/2030
S A Boyd	**328,250**	-	nil	30/06/2026	01/11/2031
J G Duffy	**655,614**	655,614	nil	01/07/2020	04/12/2025
J G Duffy	**548,780**	548,780	nil	03/07/2024	28/10/2029
J G Duffy	**379,876**	625,310	nil	01/07/2025	22/10/2030
J G Duffy	**705,888**	705,888	nil	30/06/2026	01/11/2031
J G Duffy	**468,608**	-	nil	01/07/2020	04/12/2025
	4,719,297	4,339,794			

The mid-market price of the ordinary shares on 2 July 2022 was 68.0p (2021: 92.5p) and the range during the 53-week period to 2 July 2022 was 66.5p to 102.0p (2021: 51.2p to 96.0p).

7. Finance Income and Cost

Recognised in the Consolidated Statement of Comprehensive Income

	2022 £000	2021 £000
Finance income		
Change in fair value of interest rate swaps	**-**	89
Total finance income	**-**	89
Finance cost		
Interest on net pension position	**(285)**	(224)
Interest on interest rate swap agreements	**(43)**	(119)
Bank interest payable	**(531)**	(545)
Unwinding of discount on deferred consideration	**(54)**	(105)
Interest on deferred consideration	**(18)**	(36)
Change in fair value of interest rate swaps	**(18)**	-
Lease liabilities	**(259)**	(274)
Total finance cost	**(1,208)**	(1,303)

Notes to the Consolidated Financial Statements/Continued

8. Taxation

Recognised in the Consolidated Statement of Comprehensive Income

	2022 £000	2021 £000
Current tax		
Current year	**2,137**	3,277
Adjustments for prior years	**(148)**	(263)
Total current tax	**1,989**	3,014
Deferred tax		
Origination and reversal of temporary differences	**646**	95
Rate change	**(209)**	252
Adjustments for prior years	**283**	7
Total deferred tax	**720**	354
Total tax expense	**2,709**	3,368

Reconciliation of Effective Tax Rate

The weighted average hybrid rate of UK, Polish and French tax is 19.5% (2021: 20.5%). The tax assessed for the period is lower (2021: lower) than the hybrid rate of UK and French tax. The UK Corporation Tax rate for the period is 19% (2021: 19%). The differences are explained below:

	2022 £000	2021 £000
Profit before taxation	**14,297**	17,013
Tax using the UK Corporation Tax rate of 19%, (2021: 19%)	**2,716**	3,232
Overseas profits charged at different taxation rate	**265**	151
Non-deductible expenses and timing differences	**88**	480
Restatement of opening net deferred tax due to rate change and differences in rates	**91**	298
R&D reclaim	**(586)**	(537)
Adjustments to tax charge in respect of prior periods	**135**	(256)
Total tax expense	**2,709**	3,368

The UK Corporation Tax rate increase from 19% to 25% from 1 April 2023 was substantively enacted in March 2021, this decision has been reversed after the preparation of these Financial Statements, at the mini-budget on 23 September 2022. The deferred tax assets and liabilities at 2 July 2022 have been calculated based on a rate at which they were expected to crystallise which is likely to be 19% or 25%.

The adjustment of £135,000 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 (2021: £239,000) relating to capital losses carried forward. This asset has not been recognised in the Financial Statements as it is not expected that suitable gains will arise in the future in order to utilise the underlying capital losses.

9. Earnings Per Ordinary Share

Basic earnings per share for the period is calculated on the basis of profit for the year after tax, divided by the weighted average number of shares in issue being 124,265,000 (2021: 125,805,000).

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 2 July 2022, the diluted weighted average number of shares in issue was 132,352,000 (2021: 132,753,000).

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

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

Notes to the Consolidated Financial Statements/Continued

9. Earnings Per Ordinary Share/Continued

	53 weeks to 2 July 2022 £000	52 weeks to 26 June 2021 £000
Profit		
Profit attributable to equity holders of the Company (basic)	**10,472**	12,347
Significant non-recurring and other items	**2,318**	(1,514)
Intangible amortisation net of deferred tax	**574**	574
Numerator for adjusted earnings per share calculation (adjusted basic)	**13,364**	11,407

	Basic '000	Diluted '000	Basic '000	Diluted '000
Shares				
Weighted average number of ordinary shares in issue during the period	124,265	124,265	125,805	125,805
Dilutive effect of share options	-	8,087	-	6,948
	124,265	132,352	125,805	132,753

	Basic pence	Diluted pence	Basic pence	Diluted pence
Earnings per share				
Basic and diluted	8.4	7.9	9.8	9.3
Adjusted basic and adjusted diluted	10.8	10.1	9.1	8.6

Significant non-recurring and other items net of taxation are tabled in the Strategic Report on page 40 and comprise: significant non-recurring charge £1,700,000 (2021: income £776,000), Defined Benefit Pension Scheme income £99,000 (2021: £187,000), fair value of interest rate swaps, foreign exchange contracts charge £673,000 (2021: income £636,000), and the unwinding of deferred consideration discounting charge £44,000 (2021: £85,000).

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 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
Additions	-	802	-	-	802
Transfers from tangible fixed assets	-	81	-	-	81
Cost at 2 July 2022	**85,004**	**12,270**	**3,683**	**7,630**	**108,587**
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)
Charge for the year	-	(838)	(143)	(566)	(1,547)
Accumulated amortisation at 2 July 2022	**(11,790)**	**(3,797)**	**(1,931)**	**(3,714)**	**(21,232)**
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
Net book value at 2 July 2022	**73,214**	**8,473**	**1,752**	**3,916**	**87,355**

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

Notes to the Consolidated Financial Statements/Continued

10. Intangibles/Continued

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

The Group tests goodwill for impairment on an annual basis, or more frequently if there are indications that the goodwill may be impaired. The recoverable amounts of the cash generating units are determined from value in use calculations. The key assumptions for the value in use calculations are the discount, inflation 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.

In the current climate in which we navigate well-publicised macro challenges, relevant judgements and assumptions must be made. The Group continues to operate in a complex trading environment with pressure from inflation, supply chain disruptions, labour availability impacted by the pandemic, political, economic and legislative changes and economic factors linked to the ongoing conflict in Ukraine. The conflict between Russia and Ukraine continues to develop and is likely to have a broad impact on the global economy.

Forecasts have been built on a bottom-up basis and stress tested to prepare an approved budget used as a basis for considering testing for impairment. Risks and opportunities have been considered and, plausible downside scenarios have been assessed.

The forecasts have taken in consideration the following key factors:

1. Ongoing challenging macro environment.
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 the 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 1.63% (2021: 1.5%) growth rate for all of the CGUs. 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 2021 to review consumer and competitor insight to prepare the foundations for the financial forecasts. 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 averages at 7.4% reflecting the recovery from the lower-base year impacted by the pandemic, inflationary pressures impacting consumer demand, a challenging environment with staff shortages and supply chain disruption. The forecast periods include the annualisation of commercial negotiations, benefits of our ongoing Operating Brilliance Programme and organic growth.

A post-tax discount rate of 7.9% (2021: 8.2%) has been used in these calculations. The discount rate uses weighted average cost of capital which reflects the returns on government bonds and an equity risk premium adjusted specifically for Finsbury, plus further risk premiums that consider cash generating unit risk. The Group has considered the economic environment and higher level of return expected by equity holders due to the perceived risk in equity markets when selecting the discount rate. The discount rate has decreased over the prior year rate as a result of a higher debt to equity ratio position and a decrease 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, property, plant 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	
	2022 £000	2021 £000	**2022 %**	2021 %	**2022 %**	2021 %
Lightbody of Hamilton	**45,698**	45,698	**22.5**	17.2	**29.9**	22.9
Fletchers Bakery	**20,118**	20,118	**16.0**	12.9	**21.4**	17.2
Ultrapharm	**4,046**	4,046	**12.5**	9.6	**16.7**	12.8
Nicholas and Harris	**2,980**	2,980	**37.2**	44.3	**49.6**	59.1
Johnstone's Food Service	**372**	372	**135.1**	122.8	**180.1**	163.7
	73,214	73,214				

Impairment

The post-tax discount rate at which the headroom is nil for Fletchers Bakery is 16.0% (2021: 12.9%) an improvement over the previous year. There are key strategies and plans in place in order to improve the performance of Fletchers. With our development, technical and process knowledge we can enable them to become a leading player in the buns and rolls category and our scale, new product development and continued good relationships with our foodservice customers enables us to target growth. Unprecedented inflation and workforce availability have been key challenges to address, our improved efficiencies, our focus on realising Fletchers as a centre of excellence for the buns and rolls, our continued success on our Operating Brilliance Programme and our focus on our Strategic Pillar for Growth has enabled us to overcome the challenges. Development of our own Kara foodservice brand, new product development and investment in core product areas stands us in good stead to deliver our financial forecasts. Sensitivities have been carried out to exclude any growth, which, 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 2 July 2022.

The post-tax discount rate at which the headroom is nil for Ultrapharm is 12.5% (2021: 9.6%). There are key strategies in place in order to improve the performance of Ultrapharm. There has been successful new product development during the year, the proven innovation delivery in the current year provides a solid springboard for growth throughout the strategic periods as we benefit from the annualisation of those launches. Targeted new product development and a better understanding of intellectual property will continue with new products being launched in the year to 1 July 2023. Avian flu and the Ukraine conflict have had an adverse impact on input prices, however commercial negotiations, value engineering projects, continued drive in our Operating Brilliance Programme and cost saving activities have been successful in minimising the impact of these pressures. For our overseas subsidiary home market growth is targeted along with newly formed branded relationships, which will help leverage our available capacity. Sensitivities have been carried out. It has been concluded that no impairment was necessary on the carrying value of goodwill relating to Ultrapharm at 2 July 2022.

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.

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% was replaced with zero growth rate; and
- If future growth rate assumption of 1% was replaced with a decline of 1%.

The period under review has been set against the backdrop of exceptional macroeconomic and inflationary headwinds and the Group has been faced with unprecedented challenges first triggered by the Covid-19 crisis and now by significant input cost inflation and falling consumer confidence. Despite this, the overall demand for food and drink has remained resilient. Our retail business has performed well, we continue to see a bounce back in foodservice, our overseas division continued to see strong growth and, our proven resilience and performance enables us to remain confident in our strategic plans.

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.

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	2 July 2022 £000	26 June 2021 £000
Property, plant and equipment owned	12	**53,221**	49,432
Right-of-use assets	12	**9,451**	9,583
		62,672	59,015

Right-Of-Use Assets

	Property £000	Plant, equipment and vehicles £000	Total £000
Balance at 26 June 2021	9,158	1,613	10,771
Additions	-	1,902	1,902
Disposals	-	(49)	(49)
Depreciation charge for the year	(1,362)	(624)	(1,986)
Balance at 2 July 2022	**7,796**	**2,842**	**10,638**

Lease Liabilities

	At 2 July 2022 £000	At 26 June 2021 £000
Lease liability recognised	**9,917**	10,745
Current lease liability	**1,805**	2,039
Non-current lease liability	**8,112**	8,706

Amounts recognised in the Consolidated Statement of Comprehensive Income

	At 2 July 2022 £000	At 26 June 2021 £000
Interest on lease liabilities	**(259)**	(274)
Variable lease payments not included in the measurement of lease liabilities	**(267)**	(203)
Expenses relating to short-term leases	**(13)**	(36)
Expenses relating to low-value assets, excluding short-term leases of low-value assets	**(10)**	(14)

Amounts recognised in Cash Flow Statement

	At 2 July 2022 £000	At 26 June 2021 £000
Total cash outflow for lease rentals	**2,275**	2,789

Prior Year Restatement

The lease cash flows have been corrected in the prior year cash flow statement and reclassified in total from operating cash flows to financing cash flows.

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 28 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 27 June 2021	39,942	88,294	5,653	1,859	135,748
Exchange adjustments	(67)	(137)	(7)	(1)	(212)
Additions	347	12,369	480	449	13,645
Disposals	(87)	(3,252)	(392)	-	(3,731)
Transfers	-	(81)	-	-	(81)
Balance at 2 July 2022	**40,135**	**97,193**	**5,734**	**2,307**	**145,369**
Accumulated depreciation and impairment					
Balance at 28 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 27 June 2021	(13,333)	(58,603)	(4,797)	-	(76,733)
Exchange adjustments	17	22	6	-	45
Depreciation charge for the financial period	(2,132)	(6,995)	(266)	-	(9,393)
Disposals	30	2,962	392	-	3,384
Balance at 2 July 2022	**(15,418)**	**(62,614)**	**(4,665)**	**-**	**(82,697)**
Net book value					
At 28 June 2020	25,215	34,298	1,167	1,056	61,736
At 27 June 2021	26,609	29,691	856	1,859	59,015
At 2 July 2022	**24,717**	**34,579**	**1,069**	**2,307**	**62,672**

Security

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

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

Notes to the Consolidated Financial Statements/Continued

13. Other Financial Assets and Liabilities

	2022 £000	2021 £000
Current assets – derivatives		
Fair value of foreign exchange contracts	**20**	405
Total of derivatives with positive fair values	**20**	405
Current liabilities – derivatives		
Fair value of interest rate swaps	**(139)**	(121)
Fair value of foreign exchange contracts	**(436)**	-
Total of derivatives with negative fair values	**(575)**	(121)

Interest Rate Swaps at Fair Value

The Company has a five-year swap from 3 July 2017 with a coverage of £20.0 million fixed at a rate of 0.455% expiring at the year end date and during the year the Company held a three-year swap from 28 March 2019 with a coverage of £5.0 million fixed at a rate of 1.002%. There was 72% coverage at year end (2021: 111%).

A forward-dated swap £10.0 million from 3 July 2022 until 10 June 2027 (fixed) at 2.589% was taken out to limit the risk associated with the variable rate liabilities. The interest rates for the forward-dated swap is fixed at 2.589% for £10.0 million.

There was £20.0 million coverage in place at the year end (2021: £25.0 million).

A charge of £18,000 (2021: income of £89,000) 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 £821,000 (2021: charge £696,000) 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 £2,405,000 (2021: £2,085,000).

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 (2021: nil), 147 deferred pensioner members (2021: 157) and 239 pensioner members (2021: 235).

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 53 weeks ended 2 July 2022 relating to Defined Benefit Pension are based on a full actuarial valuation dated 31 December 2018.

A £417,000 contribution was paid during the financial year by Memory Lane Cakes Limited (2021: £490,000). 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. An Asset Backed Contribution arrangement was entered into effective 18 May 2022 with the first payment under the new loan facility arrangement due on 5 July 2022 with a defined income return to the Scheme over a period of 20 years at a rate of £763,000 per annum. The next full valuation is being prepared as at 31 December 2021.

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 was appointed as fiduciary manager in December 2018. A 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. The expected return on cash balances held is based on the current Bank of England base rate rather than long-term deposit rates, as cash is held to cover short-term requirements.

Notes to the Consolidated Financial Statements/Continued

14. Pension Schemes/Continued

The full actuarial valuation differs from the financial year end valuation deficit of £6,582,000 (2021: £14,529,000). 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.

	2022 £000	2021 £000
Fair value of plan assets	**17,317**	20,803
Present value of defined benefit obligations	**(23,899)**	(35,332)
Deficit recognised	**(6,582)**	(14,529)

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

	2022 £000	2021 £000
Multi-asset growth fund	**4,947**	8,222
Gilts	**7,276**	5,731
Liability hedging portfolio (gilts/swaps)	**2,431**	2,505
Other	**1,162**	1,949
Property	**1,011**	1,523
Cash	**490**	873
Fair value of plan assets	**17,317**	20,803
Actual return on plan assets	**3,106**	1,551

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.

	2022 £000	2021 £000
Movements in present value of defined benefit obligation		
At beginning of financial year	**(35,332)**	(34,781)
Past service costs	**-**	(17)
Interest on plan obligations	**(695)**	(515)
Benefits paid	**797**	845
Experience gain	**1,309**	-
Remeasurement – gain/(loss) from changes to financial assumptions	**9,637**	(324)
Remeasurement – gain/(loss) from changes to demographic assumptions	**385**	(540)
At end of financial year	**(23,899)**	(35,332)
Movements in fair value of plan assets		
At beginning of financial year	**20,803**	19,607
Interest on plan assets	**410**	291
Return on plan assets less interest	**(3,516)**	1,260
Benefits paid	**(797)**	(845)
Contributions by employer	**417**	490
At end of financial year	**17,317**	20,803

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

Expense recognised in the Consolidated Statement of Comprehensive Income

	2022 £000	2021 £000
Past service costs	-	(17)
Interest on plan assets/finance income	410	291
Interest on plan obligations/finance expense	(695)	(515)
Total expense	(285)	(241)

Remeasurement Gains/(Losses) Recognised Directly in Equity in the Statement of Comprehensive Income and Expense since 1 July 2006, the Transition Date to Adopted IFRS

	2022 £000	2021 £000
Cumulative amount at beginning of financial year	(16,545)	(16,941)
Recognised in the financial year – return on plan assets less interest	(3,516)	1,260
Recognised in the financial year – experience gains on liabilities	1,309	-
Recognised in the financial year – gain/(loss) from changes to financial assumptions	9,637	(324)
Recognised in the financial year – gain/(loss) from changes to demographic assumptions	385	(540)
Cumulative amount at end of financial year	(8,730)	(16,545)

Principal Long-Term Actuarial Assumptions at the Year End

	2022 %	2021 %
CPI price inflation assumption	2.80	2.85
Increases to pensions in payment	2.80	2.85
Discount rate for liabilities	3.85	1.95
Rate of return for plan assets	3.85	1.95

The differential between the assumed rate of inflation and the discount rate for liabilities is 1.05% (2021: 0.90%).

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 2 July 2022, 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 negative 15.0% (2021: 8.5%). The actual return has been impacted by the recovery from the worldwide Covid-19 pandemic that has had a profound impact on the economy as countries went into lockdown.

Changing the year end 2022 assumptions to those of 2021 year end listed above, the deficit would have been £16,604,000 compared to the reported deficit of £6,582,000.

	2022	2021
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:

	2022	2021
Male currently at age 45	23.5	24.1
Female currently at age 45	26.1	26.5
Male currently at age 65	22.2	22.7
Female currently at age 65	24.7	25.1
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.

	2022
Discount rate plus 0.5%	**(£1.6 million)**
Discount rate minus 0.5%	**£1.8 million**
Inflation plus 0.5%	**£1.3 million**
Inflation minus 0.5%	**(£1.1 million)**
Life expectancy plus 1.0 years	**£0.8 million**
Life expectancy minus 1.0 years	**(£0.8 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 15 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 Company entered into an Asset Backed Contribution (ABC) arrangement on 18 May 2022 to improve the funding of the Scheme. An investment of £16.0 million will be invested by the Company to the Scheme, the trustees have purchased a loan note from the Group via a Scottish Limited Partnership (SLP) structure, which will pay a defined income return to the Scheme over 20 years. The fixed repayment plan amounts to an income of £763,000 being paid to the Scheme annually. The estimated duration of the liabilities is around 15 years.

The projected net interest charge to the Consolidated Statement of Comprehensive Income for the year to 1 July 2023 is £239,000. 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

	2022 £000	2021 £000	2020 £000	2019 £000	2018 £000
Fair value of plan assets	**17,317**	20,803	19,607	19,238	18,834
Present value of the defined benefit obligation	**(23,899)**	(35,332)	(34,781)	(30,550)	(29,370)
Deficit	**(6,582)**	(14,529)	(15,174)	(11,312)	(10,536)
Experience adjustments on plan assets	**(3,516)**	1,260	528	384	(779)
as a percentage of plan assets	**(20.3%)**	6.1%	2.7%	2.0%	(4.1%)
Experience adjustments on plan liabilities	**1,309**	-	-	1,614	-
as a percentage of plan liabilities	**(0.5%)**	0.0%	0.0%	(5.3%)	0.0%
Total remeasurement gains/(losses)	**7,815**	396	(3,806)	(332)	(172)
as a percentage of plan liabilities	**(32.7%)**	1.1%	10.9%	1.1%	0.6%

The Group has an interest in a partnership, the Finsbury ABC Partnership LP, which is fully consolidated into these Group Financial Statements. The Group has taken advantage of the exemption conferred by regulation 7 of the Partnerships (Accounts) Regulations 2008 and has therefore not appended the accounts of this qualifying partnership to these Financial Statements. Separate accounts of the partnership are not required to be, and have not been, filed at Companies House.

Notes to the Consolidated Financial Statements/Continued

15. Inventories

	2022 £000	2021 £000
Raw materials and consumables	**8,332**	6,715
Finished goods	**14,949**	8,312
	23,281	15,027

Inventories Recognised as an Expense

	2022 £000	2021 £000
Opening inventories	**15,027**	14,618
Purchases	**147,795**	123,394
(Decrease)/increase in stock provisions	**251**	(320)
Closing inventories	**(23,281)**	(15,027)
Expensed during the period	**139,792**	122,665

Inventories are stated after provisions for impairment of £1,009,000 (2021: £865,000).

16. Trade and Other Receivables

	2022 £000	2021 £000
Trade receivables due from third parties	**51,311**	45,799
Other debtors	**3,639**	4,051
Prepayments and accrued income	**3,198**	1,136
	58,148	50,986

Trade receivables due from third parties are stated after provisions for impairment of £967,000 (2021: £1,094,000).

17. Cash and Cash Equivalents Including Bank Overdrafts

	2022 £000	2021 £000
Cash at bank and on hand	**22,915**	24,227
Bank overdraft	**(15,534)**	(14,704)
	7,381	9,523

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.

2022 Statutory	Margin	Frequency of repayments	Year of maturity	Facility £000	Drawn £000	Current £000	Non-current £000
Revolving credit	1.95%/SONIA	Varies	2027	60,000	27,875	-	27,875
Leases*	Various	Monthly	Various		9,917	1,805	8,112
Unamortised transaction costs					(799)	(200)	(599)
					36,993	**1,605**	**35,388**

* 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.

2022	Margin	Frequency of repayments	Year of maturity	Facility £000	Drawn £000	Current £000	Non-current £000
Revolving credit	1.95%/SONIA	Varies	2027	60,000	27,875	-	27,875
Finance lease (under IAS 17)	Various	Monthly	Various		151	76	75
Unamortised transaction costs					(799)	(200)	(599)
Total bank debt					**27,227**	**(124)**	**27,351**
Operating leases (under IAS 17)	2.2%	Varies			9,766	1,729	8,037
Total debt					36,993	1,605	35,388

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	Various		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

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 and interest cover.

The revolving credit bank facility available for drawdown is £60.0 million plus a further £60.0 million accordion facility (2021: £55.0 million plus a further £35.0 million accordion). At the period end date, the facility utilised was £27.9 million (2021: £22.4 million), giving £32.1 million (2021: £32.6 million) headroom plus a further £60.0 million (2021: £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 2021 £000	Cash flow £000	**At year ended 2 July 2022 £000**
Cash and cash equivalents	9,523	(2,142)	**7,381**
Debt due after one year	(22,431)	(5,444)	**(27,875)**
Hire purchase obligations due within one year	(128)	52	**(76)**
Hire purchase obligations due after one year	(92)	17	**(75)**
Total net bank debt	(13,128)	(7,517)	**(20,645)**

20. Trade and Other Payables

	2022 £000	2021 £000
Current		
Trade creditors	**46,588**	38,943
Other creditors including taxes and social security	**2,714**	2,409
Accruals and deferred income	**24,982**	21,138
	74,284	62,490

21. Provisions

	Litigation £000	**Site closure £000**	**Pension £000**	**Total £000**
Balance at the beginning of the financial year	-	204	178	382
Made/(released) during the year	679	(130)	-	549
Utilised during the financial year	-	(74)	(142)	(216)
Balance at the end of the financial year	**679**	**-**	**36**	**715**
Current provisions	679	-	18	697
Non-current provisions	-	-	18	18

The litigation provision relates to an ongoing legal claim that is expected to be concluded within the next financial year.

The site closure provision relating to the closure of the Grain D'Or site in October 2017 was fully utilised and released during the year. All units have been successfully re-let during the year with the closure project now concluded.

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 with two years remaining.

22. Acquisitions

The Company acquired a further 35% of the issued share capital of Lightbody-Stretz Limited from Phaste S.a.r.l. in February 2022 for a consideration of £6.1 million, bringing its holding up from 50% to 85%.

Deferred consideration of £1.0 million paid relates to the acquisition of Ultrapharm Limited (Ultrapharm) for £16.9 million plus up to £3.0 million, £0.5 million of which is outstanding at 2 July 2022 with the final quarterly instalment payable in October 2022.

Discounted amounts payable within one year of the Consolidated Statement of Financial Position date is £496,000 (2021: £976,000) and amounts due beyond one year is £nil (2021: £466,000). Amounts charged to finance expenses during the year for the unwinding of the discounting is £54,000 (2021: £105,000).

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	
	2022 £000	2021 £000	**2022 £000**	2021 £000
Intangibles	**-**	-	**(1,415)**	(1,594)
Property, plant and equipment	**-**	-	**(2,283)**	(1,262)
Foreign exchange contracts	**79**	-	**-**	(77)
Short-term temporary differences	**42**	38	**-**	-
Interest rate swaps	**33**	23	**-**	-
Discounting of deferred consideration	**-**	-	**(1)**	(11)
Pension Scheme	**1,645**	3,632	**-**	-
Employee Share Scheme	**1,019**	669	**-**	-
Losses acquired	**1,254**	1,599	**-**	-
Tax assets/(liabilities)	**4,072**	5,961	**(3,699)**	(2,944)
Net tax assets/(liabilities)	**373**	3,017	**-**	-

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

	27 June 2021 £000	Recognised in minority interest £000	Recognised in income £000	Recognised in equity £000	**2 July 2022 £000**
Intangibles	(1,594)	-	178	-	**(1,416)**
Property, plant and equipment	(1,262)	-	(1,021)	-	**(2,283)**
Foreign exchange contracts	(77)	30	126	-	**79**
Short-term temporary differences	38	-	4	-	**42**
Interest rate swaps	23	-	10	-	**33**
Discounting of deferred consideration	(11)	-	11	-	**-**
Pension Scheme	3,632	-	(33)	(1,954)	**1,645**
Employee Share Scheme	669	-	350	-	**1,019**
Losses acquired	1,599	-	(345)	-	**1,254**
	3,017	30	(720)	(1,954)	**373**

	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

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

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 36 to 39.

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 2 July 2022.

		Contractual cash flows including estimated interest				
At 2 July 2022	**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	**(27,875)**	(27,875)	-	-	(27,875)	-
Trade creditors	**(46,587)**	(46,587)	(46,587)	-	-	-
Lease liabilities	**(9,917)**	(9,917)	(1,805)	(1,563)	(2,938)	(3,611)
Other lease liabilities	**(2)**	(2)	(2)	-	-	-
	(84,381)	(84,381)	(48,394)	(1,563)	(30,813)	(3,611)

		Contractual cash flows including estimated interest				
At 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)

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 (ECL) 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 £51.3 million (2021: £45.8 million) and the ageing of trade receivables at the period end date was:

	2022 £000	2021 £000
Not past due	**47,361**	42,176
Past due 0-30 days	**3,085**	2,610
Past due 31-120 days	**769**	824
Past due more than 120 days	**96**	189
	51,311	45,799

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 £0.9 million past due by more than 30 days is equivalent to less than one days sales (2021: £1.0 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

Our Group has been faced with unprecedented challenges first triggered by the Covid-19 crisis and now by significant input cost inflation and falling consumer confidence. Despite this, the overall demand for food and drink has remained resilient and we have achieved record revenue levels for the year to 2 July 2022. Our retail business performed well, we continued to see a bounce back in foodservice, and our overseas division continued to see strong growth. We are expecting the headwinds to persist, however we have a proven track record of resilience in challenging times.

i) Interest Rate Risk

The Group's interest rate risk exposure is primarily to changes in variable interest rates. The Group has entered into one interest rate swap arrangement 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:

	2022 £000	2021 £000
Variable rate liabilities	**(27,875)**	(22,431)

The Company has a five-year swap from 3 July 2017 with a coverage of £20.0 million fixed at a rate of 0.455% expiring at the year end date and during the year the Company held a three-year swap from 28 March 2019 with a coverage of £5.0 million fixed at a rate of 1.002%. There was 72% coverage at year end (2021: 111%). A forward-dated swap £10.0 million from 3 July 2022 until 10 June 2027 (fixed) at 2.589% was taken out to limit the risk associated with the variable rate liabilities. The interest rates for the forward-dated swap is fixed at 2.589% for £10.0 million.

Notes to the Consolidated Financial Statements/Continued

24. Financial Risk Management/Continued

Sensitivity

A 1% increase in the base rate, SONIA 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.

	2022 £000	2021 £000
Profit increase/(decrease)	**(9)**	(34)
Decrease in net assets	**(9)**	(34)

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

	2022 £000	2021 £000
Profit increase/(decrease)	**3**	(233)
Increase/(decrease) in net assets	**3**	(233)

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 Limited, our 85% 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 dividend payment was reinstated for the year to 26 June 2021 and a dividend of 2.4p per share was paid on 21 December 2021 to shareholders on the register at the close of business on 26 November 2021. An interim dividend for the year ending 2 July 2022 of 0.8p per share (H1 2020: nil) was paid on 21 April 2022 to shareholders on the register at the close of business on 25 March 2022. The Company paid a £1.1 million dividend to the 50% minority shareholder in Lightbody-Stretz Limited and a pre-sale dividend of £1.4 million immediately prior to the acquisition of a further 35% shareholding from Phaste S.a.r.l taking the shareholding up from 50% to 85%.

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 0.3 (2021: 0.2). The gearing ratio is calculated by 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 71.

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

	2022 000s	2021 000s
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 (6,668,718 shares were held at the year-end). All shares are the same class with equal rights. During the year the EBT purchased 679,731 ordinary shares of 1p each in the capital of the Company ("ordinary shares") at a price of £0.7341 per ordinary share.

At the 2021 Annual General Meeting held on 18 November 2021, 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 17 November 2022.

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 2 July 2022 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 2 July 2022 £000	Period of expense
1 November 2021	1,636,005	1,636,005	nil	964	247	3.0 years
Charge relating to options granted in the current year					247	
Charge relating to options granted in prior years					1,277	
Charge included in administrative expenses					**1,524**	

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
1 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**	

Notes to the Consolidated Financial Statements/Continued

26. Share Capital/Continued

Details of share options outstanding at 2 July 2022 and movements during the year by exercise price is shown below:

Exercise price	First exercise date	Last exercise date	At 27 June 2021	Granted	Forfeited	Cancelled/ lapsed	Exercised	**At 2 July 2022**
nil	Sep 2018	Dec 2025	50,304	-	-	-	-	**50,304**
nil	Jul 2020	Dec 2025	1,131,978	-	-	-	-	**1,131,978**
nil	Sep 2022	Oct 2029	3,333,287	-	(165,616)	(241,804)	-	**2,925,867**
nil	Feb 2023	Feb 2030	32,836	-	-	(12,888)	-	**19,948**
nil	Jul 2024	Oct 2029	1,063,325	-	-	(417,355)	-	**645,970**
nil	Oct 2023	Oct 2030	991,929	-	(42,130)	-	-	**949,799**
nil	Jan 2024	Oct 2030	91,538	-	-	-	-	**91,538**
nil	Jul 2025	Oct 2030	1,200,346	-	-	-	-	**1,200,346**
nil	Nov 2024	Nov 2031	-	839,148	-	-	-	**839,148**
nil	Nov 2026	Nov 2031	-	796,857	-	-	-	**796,857**
			7,895,543	1,636,005	(207,746)	(672,047)	-	**8,651,755**

A summary of share options outstanding and movements for the year to 26 June 2021 is shown below:

	At 28 June 2020	Granted	Forfeited	Cancelled	Exercised	At 26 June 2021
Number of options	7,231,297	2,283,813	(581,915)	(1,037,652)	-	7,895,543

There were 1,182,282 options exercisable at the period end date (2021: 1,182,282). There were no options exercised during the year (2021: nil). There were 672,047 options (2021: 1,037,652) that lapsed during the year where performance conditions have not been met in full.

The options outstanding at the year end have a weighted average exercise price of nil (2021: nil) and a weighted average remaining contractual life of 1.2 years (2021: 1.4 years).

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

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

	2022	2021
Expected life of option	**3.0 years**	3.0 years
Volatility of share price	**37%**	29%
Dividend yield	**3.1%**	4.3%
Risk free discount rate	**0.7%**	0.5%
Share price at grant date	**91.0p**	82.0p
Exercise price	**nil**	nil

27. Dividends

The dividend was reinstated during the year. For the full year to 26 June 2021 a dividend of 2.4p per share was paid on 21 December 2021 to shareholders on the register at the close of business on 26 November 2021.

An interim dividend for the year ending 2 July 2022 of 0.83p per share (2021: nil). The interim dividend was paid on 21 April 2022 to shareholders on the register at the close of business on 25 March 2022.

The Board of Directors is recommending a final dividend for the year ending 2 July 2022 of 1.67p per share, taking the full year dividend to 2.50p per share (2021: 2.40p). The final dividend will be paid on 21 December 2022 to shareholders on the register at the close of business on 25 November 2022. The election deadline for participants in the Company's Dividend Re-Investment Plan will be 30 November 2022.

The Company paid a £1,084,000 dividend to the non-controlling interest in Lightbody-Stretz Limited and a pre-sale dividend of £1,441,426 was paid immediately prior to the acquisition of a further 35% shareholding from Phaste S.a.r.l, taking the shareholding up from 50% to 85%.

28. Commitments

At the financial year ended 2 July 2022, the Group had capital expenditure commitments of £1,649,000 (2021: £6,000).

The Company entered into an Asset Backed Contribution (ABC) arrangement on 18 May 2022 to improve the funding of the Scheme. An investment of £9.7 million will be invested by the Company to the Scheme, the trustees have purchased a loan note from the Group via a Scottish Limited Partnership (SLP) structure, which will pay a defined income return to the Scheme over 20 years. The fixed repayment plan amounts to an income of £763,000 being paid to the Scheme annually.

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 2022 and for 2021 in relation to non-cancellable operating leases (under IAS 17) are as follows:

	Other	
	2022 £000	2021 £000
On leases which expire in:		
Less than one year	**2**	18
Between one and five years	**-**	1
	2	19

30. Related Parties

Related Party Transactions and Directors' Material Interests in Transactions

An 85% owned subsidiary, Lightbody-Stretz Limited, paid SCI Coysevox £65,000 (2021: £66,000) in respect of rent for offices. No balances were outstanding at either year end. Lightbody Europe received £11,469 for accountancy and administration services (2021: £36,563) from FoodHub and an additional £4,160 for royalties (2021: £11,310). £2,043 was outstanding at the year end (2021: £nil). Mr P Stretz, the Managing Director of Lightbody-Stretz Limited, being the related party.

The Group paid £nil (2021: £nil) for the supply of finished products from and received £141,371 (2021: £nil) for the sale of finished products to FoodHub, a company 15% owned by Mr P Stretz. The amount payable and receivable at the year end was £nil (2021: £nil) and £8,671 (2021: £9,590) 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% (2021: 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:

	2022 £000	2021 £000
Company contributions to money purchase Pension Schemes	**70**	65
Executive salaries and benefits	**3,741**	2,416
	3,811	2,481

Share options held by Group Directors are set out in Note 6. Details of share options outstanding at 2 July 2022 for other key management personnel by exercise price is shown in the table below. Following various internal promotions to the Group Executive Committee, the number of key management personnel included in the table below has increased.

Exercise price	**Number of options at 2 July 2022**	Number of options at 26 June 2021	Earliest exercise date	Exercise expiry date
nil	**599,198**	-	01/11/2024	01/11/2031
nil	**91,538**	-	07/01/2024	07/01/2031
nil	**675,787**	598,176	28/10/2023	22/10/2030
nil	**32,836**	-	26/02/2023	26/02/2030
nil	**1,599,552**	1,205,745	28/10/2022	28/10/2029
nil	**50,303**	50,303	30/09/2018	04/12/2025
	3,049,214	1,854,224		

31. Non-Controlling interests

Set out below is summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed are before inter-Company eliminations.

Summarised balance sheet	2 July 2022 £000	26 June 2021 £000
Current assets	**11,531**	11,358
Current liabilities	**(8,537)**	(6,219)
Current net assets	**2,994**	5,139
Non-current assets	**150**	189
Non-current liabilities	**(18)**	(7)
Non-current net assets	**132**	182
Net assets	**3,126**	5,321
Accumulated NCI	**255**	2,786

Summarised statement of comprehensive income	2 July 2022 £000	26 June 2021 £000
Revenue	**45,373**	35,250
Profit for the period	**1,973**	1,903
Other comprehensive income	**-**	-
Total comprehensive income	**1,973**	1,903
Profit allocated to NCI	**1,116**	1,298
Dividends paid to NCI	**2,525**	722

On 22 February 2022, the Group acquired an additional 35% of the issued share capital of Lightbody-Stretz Limited for £6.1 million. The Group recognised a decrease in non-controlling interest of £1.1 million and a decrease in equity attributable to the owner of the Parent of Lightbody-Stretz Limited. The effect on the equity attributable to the owners of Lightbody-Stretz Limited during the year is summarised as follows:

	2 July 2022 £000	26 June 2021 £000
Carrying amount of non-controlling interest acquired	**1,121**	-
Consideration paid to non-controlling interest	**(6,083)**	-
Acquisition costs	**(375)**	-
Excess of consideration paid recognised in the transactions with non-controlling interest reserves within equity	**(5,337)**	-

Summarised cash flows	2 July 2022 £000	26 June 2021 £000
Cash flows from operating activities	**3,260**	1,997
Cash flows from investing activities	**(216)**	(13)
Cash flows from financing activities	**(5,052)**	(1,444)
Net increase/(decrease) in cash and cash equivalents	**(2,007)**	539

32. Ultimate Parent Company

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