Finsbury
Food Group Plc

Annual Report & Accounts 2017

Highlights

Achieving growth

The Company has delivered resilient UK sales in a deflationary market, with the impact of UK retail food market deflation in the period offset by the impact of innovation in cake and growth in speciality bakery ranges.

Highlights

These figures are for the 52 weeks ended 1 July 2017 and 53 weeks ended 2 July 2016 unless stated otherwise.

Adjusted Operating Profit

	2017 (52 weeks) £000	2016 (53 weeks) £000
Results from operating activities	**13,564**	12,791
Significant non-recurring items – SNR (refer to Note 4 for detail)	**4,000**	4,290
Difference between defined benefit pension scheme charges and cash cost	**(200)**	(117)
Movement in the fair value of foreign exchange contracts	**71**	134
Adjustments SNR and other items	**3,871**	4,307
Adjusted results from operating activities	**17,435**	17,098
Impact of 53rd week	**-**	(371)
Adjusted results from operating activities for 52 weeks	**17,435**	16,727

Adjusted Profit Before Tax

	2017 (52 weeks) £000	2016 (53 weeks) £000
Profit before tax	**13,038**	11,804
Significant non-recurring items – SNR (refer to Note 4 for detail)	**4,000**	4,290
Difference between defined benefit pension scheme charges and cash cost	**4**	31
Movement in the fair value of interest rate swaps	**(555)**	(219)
Movement in the fair value of foreign exchange contracts	**71**	134
Adjustments SNR and other items	**3,520**	4,236
Adjusted profit before tax	**16,558**	16,040
Impact of 53rd week	**-**	(358)
Adjusted profit before tax for 52 weeks	**16,558**	15,682

Adjusted operating profit and profit before tax exclude significant non-recurring and other items as shown in the tables above and includes amortisation of intangibles. The adjusted operating profit has been given as in the opinion of the Board this will allow shareholders to gain a clearer understanding of the trading performance of the Group.

Like for like growth is calculated using financial data for the prior year for a 52 week period. The 52 week period is calculated by eliminating the result for the 53rd week in the financial year ended 2 July 2016.

Adjusted diluted EPS has been calculated using earnings excluding the 53rd week in the prior year, amortisation of intangibles, significant non-recurring and other items as shown in the tables above. The adjusted diluted EPS has been given as in the opinion of the Board this will allow shareholders to gain a clearer understanding of the trading performance of the Group.

The Financial Review section within the Strategic Report provides further details on the adjusted profits.

Group Revenue
£314.3m
↑ 0.2%

Adjusted Operating Profit
£17.4m
↑ 4.2%

Adjusted Profit before Tax
£16.6m
↑ 5.6%

Adjusted EBITDA
£24.9m
↑ 2.7%

Capital Investment
£12.5m
↑ 3.3%

Adjusted EPS
9.8p
↑ 2.1%

Total Dividend
3.0p
↑ 7.1%

Net Debt
£17.5m
↓ 11.2%

Strategic Highlights

- Capital investment including a new state of the art cake line which will be fully operational in financial year 17/18, an exciting new cupcake capability to augment the Group's licensed product range and a range of packing automation investments.
- New artisan bread facility opened, baking for retail and foodservice customers.
- Sales to continental Europe up 15% to £38.1m.
- Entered into consultation to close Grain D'Or, the loss making site in North London which manufactures premium baked goods in the UK pastry sector.
- Employee engagement programme commences following on from successful roll out of vision and values throughout the Group.
- A new multiyear licensing agreement with Thorntons and new brand licence engagements with Mary Berry and Mars, with a range of Mary Berry cakes launched in the second half of the year.
- Winner of Celebration Cake Business of the year for 2016 at the Bakery Industry Awards and multiple food quality awards: Quality food award, Café Quality food award, Grocer Own Label innovation award and International Licensing award.

Unless stated otherwise stated the figures quoted for the prior year are for a 53 week period.

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Chairman's Statement

"We will continue to work hard to run our existing businesses as efficiently and effectively as possible whilst investing for the future..."

Peter Baker
Non-Executive Chairman

Achieving our objectives

We continue to make good progress in line with our stated aim of becoming a leading speciality bakery group in the UK.

We have delivered a resilient performance despite the changing consumer and customer dynamics and the challenging economic environment for food manufacturers across the industry, which has made the journey somewhat slower and harder than expected. The Board has reviewed the Group's strategy in the light of these external changes and has concluded that there is no need for any radical change of direction and we still firmly believe we are set on the right path to achieve our goal. We will continue to work hard to run our existing businesses as efficiently and effectively as possible whilst investing for the future and keeping a solid balance sheet that can be utilised, as and when the right opportunities present themselves.

The Board welcomed Bob Beveridge as a Non-Executive Director in July and he will be joining the Audit Committee. The new Group management structure has bedded in well and is delivering the scale opportunities and benefits expected, whilst preserving our largely decentralised site system.

The Results

The Group's revenue for the 52 weeks was £314.3m, up 0.3%, on a like for like basis, compared to last year's adjusted 52 week figure. Profit before tax at £13.0m is up from £11.8m in the prior period, which on an adjusted and like for like basis is £16.6m versus £15.7m, representing a 5.6% increase. Debt is at 0.7 times EBITDA.

This result delivers on our expectations and has been achieved against a deflationary UK retail food market which is changing in terms of channel balance, as consumers shop in less traditional ways. This has led to an upswing in the discounter's market share and online gains. Specific cost issues, that relate to the current weakness of Sterling and increased costs of the new national living wage have also had to be overcome through efficiency gains and price adjustment. The European business has performed strongly this year and has demonstrated the benefit of having a diversified portfolio. A full financial review is available further on in the Report.

This outcome has not been easy to achieve and has only been possible because of our Board's long-term focus on driving efficiency and managing costs, as well as the hard work of Finsbury's committed team. This was demonstrated when the Board was presented with the results of the first Group employee engagement survey. The participation was excellent and the results gratifying, with only a few areas marked for improvement.

Investing for the Future

The Group's capital investment of £12.5m means we have completed, or are in the throes of completing, some very important strategic projects. A new cake line is coming on stream in Cardiff and there is a new IT system being rolled out which will give a common platform for the whole business. The benefits of these and other projects will help improve our overall productivity and offset increases in our cost base.

In light of the current environment, we maintain a strong focus on investing in our future. With this in mind we plan to invest in new plant, equipment and systems to further improve efficiency, product quality and our capability in sustainable and environmentally-responsible manufacturing. We continually assess our role within various product markets and are committed to critically reviewing our presence in those that are less successful. To this end the Company has entered into consultation with the workforce of Grain D'Or, the Group's loss making pastry factory in North London, to close the site. This consultation will conclude mid-October.

Strategy for Continued Growth

The licensing of brands is an important part of the business and we have worked hard to improve and strengthen our relationships with existing licensees and we were delighted to launch a range of Mary Berry cakes in the second half of the year.

We continue to win awards for our products and to add to our capabilities, such as in a new cupcake line and an artisan bread production facility, both meeting the needs of changing consumer demands. In the same way, our new product development is increasingly directed towards providing healthier and more convenient products.

Development of the foodservice channel is also an ongoing target for growth alongside any business acquisitions that meet our criteria.

Finally, on behalf of the Board I would like to thank everyone who works at Finsbury for delivering another successful year. Their passion, energy and contribution continues to drive the business forward.

Dividends

The final dividend per share of 2.0p will take the total dividend for the year to 3.0p per share, up 7% from last year's dividend of 2.8p per share.

£314.3m

The Group's revenue for the 52 weeks was £314.3m, up 0.3%, on a like for like basis, compared to last year's adjusted 52 week figure.

£16.6m

Adjusted profit before tax is £16.6m, up 5.6% from £15.7m in 2016 on a like for like basis.

£17.5m

Total net debt is £17.5m, down £2.2m from £19.7m reported in the prior year.

3.0p

The total dividend for the year is 3.0p per share, up 7% from last year's dividend of 2.8p per share.

Chief Executive's Report

"The Group is now one of the largest speciality bakery groups in the UK with a small but fast growing European business."

John Duffy
Chief Executive Officer

Achieving efficiency

Since joining the Company in 2009, our team has been keenly focused on creating strong foundations and a competitive cost base to ensure that we are in a solid position to weather industry-wide challenges.

Driving efficiency and scale has been a long-term focus for Finsbury and has represented the rationale behind a range of initiatives we have implemented over recent years.

With this in mind, having been operating within a deflationary UK grocery food market during the period under review, the effectiveness of these initiatives has been tested. Therefore I am pleased to report on the solid performance and trading resilience the Group has demonstrated against the headwinds posed by sustained Sterling devaluation and high input costs experienced during FY 2017. This performance, which includes growth in both Group sales and profit in the year on a like for like basis, follows several years of very strong organic and acquisition-led growth and demonstrates the benefits of the investment and diversification strategy implemented over recent years. Additionally, our strong cashflow and robust balance sheet allowed us to both reduce debt and increase our dividend whilst continuing to invest to strengthen our business for the future.

The Group is now one of the largest speciality bakery groups in the UK with a small but fast growing European business. The latter performed particularly strongly as it benefited from improved celebration cake and free from product ranges and was boosted by the exchange rate tailwind from a weaker Sterling.

All food manufacturers and their customers have had to navigate the transition from the deflationary food market of recent years to the inflationary environment evident throughout the second half and beyond. Sterling's structural decline amplified typically cyclical commodity input cost increases for UK manufacturers importing many of their ingredients. The National Living Wage has similarly amplified annual labour cost inflation throughout the labour intensive food and agriculture sector and indeed beyond. This trend looks set to continue for some time with high profile butter price hikes, driven by increased demand and a supply shortfall, the most significant example in recent months.

This market transition has seen us work proactively with our brand partners and customers to revise our product, pricing and promotional portfolio to strike the right sustainable balance of providing value for consumers whilst delivering on margin requirements. These are difficult customer conversations and whilst diminished promotional spend reduced sales growth in the short-term, operating margin was successfully maintained in FY17 in conjunction with our internal efficiency improvement initiatives and recent capital investment.

Strategic Investment Underpinning the Future

Finsbury's goal is to ensure that the Group is well positioned to maintain pricing for consumers and to remain a low cost producer for customers. These resilient results are testament to the importance of continually investing in our operations in order to improve overall productivity and offset increases in the Group's cost base.

FY17 saw the second consecutive year of record capital investment at £12.5m, some 181% of depreciation, as we further strengthen the Group's growth capacity, product capability, efficiency and cost competitiveness.

This has seen the installation of a new automated whole cake line in an upgraded bakery at our Cardiff site. This is currently undergoing product commissioning for full production in FY18. We have also opened a new artisan bread bakery at our Salisbury site. Both of these will enable future growth aligned to changing consumer demand for premium, healthy and authentic product ranges across different market channels.

The second major investment area is focused on redesigning our business processes to drive scale and efficiency across the Group businesses. This standardisation of process across all sites in the Group establishes agreed best practice and this is then embedded within the roll out of our new ERP IT platform across the Group during the first half of FY18.

The third major investment area, largely non capital expenditure, is our 'people' strategy. Having successfully rolled out our vision and values last year, we completed our first Group employee engagement survey, with an engagement score of 68%, to establish a base for future improvement. A new Group-wide talent management system and an associated management development programme were also successfully deployed during the year to nurture the development of both today's and, importantly, tomorrow's leaders.

£12.5m

FY17 saw the second consecutive year of record capital investment at £12.5m, some 181% of depreciation, as we further strengthen the Group's growth capacity, product capability, efficiency and cost competitiveness.

68%

Having successfully rolled out our vision and values last year, we completed our first Group employee engagement survey, with an engagement score of 68%, to establish a base for future improvement.

£38.1m

A 15% rise in sales to continental Europe, demonstrating the benefits of geographic diversification.

"Finsbury's goal is to ensure that the Group is well positioned to maintain pricing for consumers and to remain a low cost producer for customers."

Finally, we have entered into consultation for the closure of Grain D'Or, the Group's loss-making pastry factory. Over the two and a half year period since acquisition we have been working closely with management of this site to stem the losses it experienced. However, although improvements have been made, the ongoing pressures from commodity and labour cost increases has made it difficult to maintain customer contracts. The cost to close, if seen as an investment, will be justified by the reduction in losses. The Group will update the market following the completion of the consultation process and, depending on the outcome, will outline the financial consequences of any decision.

A Consistent Strategy for Uncertain Times

Our vision is to be a leading speciality bakery Group which produces a broad range of high quality products for growing channels and market niches, delivers growth and differentiation for our major customers, and fulfills end-consumer requirements. Our focus is on the UK but increasingly we are extending our reach into Europe.

We operate in competitive sectors and markets, supplying brand partners and customers with innovative, safe and high quality bakery products which anticipate and fulfil consumer trends, are efficiently and sustainably made and offer great value. These results show that this strategy has delivered results for the Group.

Additional investment to better understand consumer needs and category growth opportunities complements the product, business process and people investment outlined previously. Our ability to leverage scale and best practice intellectual property across the Group, whilst delivering for individual customers and brand partners, is central to our continued competitiveness and underpins our growth ambitions. It is rewarding to see Group businesses winning a number of externally recognised industry and customer food awards, whilst also extending and deepening our licensed brand relationships with both existing partners such as Thorntons and Mars, as well as new partners such as Mary Berry.

In line with our stated growth strategy the Group has continued to explore acquisition opportunities that fit strategically and meet our value criteria. However, none were successful in the year as valuations remained unrealistic given known market headwinds. More challenging market conditions may provide new acquisition opportunities in the year ahead and we remain patient. Meanwhile there are ample opportunities identified to further strengthen and optimise our current Group businesses.

I would like to thank my Board, Executive teams and the thousands of colleagues across Finsbury for their continued commitment and hard work in baking great food products every day and in particular, to those individuals which drive the investment and change programmes on top of their other day job responsibilities.

The business environment isn't going to get any easier but I remain confident that Finsbury has the right people, investment approach and M&A strategy to deliver growth in the years ahead, delivering value for employees, customers and shareholders alike.

Our business expertise and our baking skills continue to win industry accolades. The Bakery Industry Awards crowned us Celebration Cake Business of the year, while the International Licensing industry awarded us Best Licensed Food Product. Among many other successes were the Quality food award, the Café Quality food award and the Grocer Own Label Innovation award.

Achieving differentiation

Our vision is to be a leading speciality bakery group producing a broad range of high quality products targeted at growing channels and market niches and which deliver growth and differentiation for our customers whilst fulfilling the needs of end consumers.

Our focus is the UK but increasingly we are extending our reach into Europe, particularly for cake products.

Our growth strategy will be delivered by a combination of organic growth and targeted acquisitions. We will invest to consolidate and grow within existing areas, such as round cakes and artisan bread. We will also invest to expand our capabilities into new product formats and capability. This investment will accompany and facilitate the diversification of our product capability into new channels such as foodservice cake and gluten free. Further acquisitions will introduce new product, customer or channel diversification or accelerate market consolidation in our core product areas.

Our Markets

The total UK ambient cake market (including pre-packed cake and in-store bakery (ISB)) is valued at over £938 million (source: Symphony IRI, 52 w/e 19 August 2017). The annual retail bread and morning goods market has a value of £4.0 billion (source: Kantar Worldpanel 52 weeks to 16 July 2017). The UK foodservice bread and morning goods bakery sector is worth approximately £836 million per annum. The UK foodservice cake and sweet treat bakery sector is worth approximately £494 million per annum (source: UK foodservice data derived from NPD Crest w/e 30 June 2017).

Our Business

The Group consists of the UK bakery and the overseas sector businesses.

UK Bakery

UK bakery has eight factories each with its own range of products and manufacturing capabilities and employing in excess of 3,000 people across the following bakery companies:

- Lightbody of Hamilton Ltd is based in Hamilton and is the UK's largest supplier of celebration cakes.
- Memory Lane Cakes Ltd is based in Cardiff and is the leading manufacturer of the UK retailers own label sharing cake.
- Fletchers Group of Bakeries has three factories located in Sheffield, Manchester and London. It produces a wide range of fresh and frozen bread and morning goods products, which are distributed to leading UK retailers and foodservice customers.
- Johnstone's Food Service Ltd is based in East Kilbride and produces bite style cake products, including its renowned caramel shortcake. It supplies foodservice customers, particularly national coffee shop chains.
- Nicholas & Harris Ltd is based in Salisbury and produces a range of speciality bread and morning goods which are distributed to UK retailers and foodservice customers.
- Campbells Cake Company Ltd is based in Twechar near Glasgow and produces cold set products such as caramel shortbread and tiffin for retailers.

The Group's bakery product range is comprehensive and includes:

- Large premium and celebration cakes.
- Small snacking cake formats such as cake slices and bites.
- Artisan, healthy lifestyle and organic breads through to rolls, muffins (sweet and savoury) and morning pastries, all of which are available fresh and frozen dependent on customer channel requirements.

Overseas

Our overseas business is a 50% subsidiary, Lightbody Stretz, based in France and run by Philippe and Valerie Stretz. The Company's focus is primarily France and the Benelux nations, and together, we are beginning to make in-roads into Austria, Switzerland and Germany. Lightbody Stretz procures, supplies and distributes a range of products to its customers. The product range includes licensed celebration and bite style cakes manufactured in the Group's UK bakeries. The company has also developed an expertise in gluten free bakery which it resources in both the UK and in Europe and sells under its brand 'Wiso' or as own label into retailer in-store bakery.

FINSBURY FOOD GROUP
INNOVATION
ACHIEVEMENTS 2017

We continually develop new lines to meet new consumer demand trends such as healthier and more convenient bakery products, and innovation is key to this. This year we invested in new cupcake production methods and another artisan bread production facility.

The full product range extends to loaf, sharing and celebration cakes which have all been developed in partnership with Mary Berry's original recipes.

Brands and Licences

The Group is proud to have a well balanced portfolio of retailer own label business and a strong and evolving licensed branded portfolio, all supported by collaborative and strategic partnerships. We also have our own cake brand, Memory Lane, and the Kara foodservice brand.

Kara

Kara is the innovative foodservice brand of the Finsbury Food Group, distributing to more than 300 wholesalers and end users such as UK pubs, hotels and restaurant chains, as well as exporting to countries including Germany, France, Denmark, Portugal, Spain and Holland. The Kara brand is 100% dedicated to foodservice. Kara began its journey in 1985 with its famous floured baps, and today the range includes new premium additions such as artisan breads, brioche buns, traybakes and large premium cakes. Kara has successfully built an ever-growing portfolio of sweet and savoury baked goods; continuing to focus on the latest consumer trends, and developing new and innovative products that enable foodservice customers to stay ahead.

The year to 1 July 2017 was one of consolidation for the foodservice business after several consecutive years of growth. Revenues marginally ahead of the prior year in a challenging foodservice market. New business was secured on the new cake ranges with the two major UK foodservice wholesalers, as well as major cafes and pub groups. Market leading Kara brioche buns continue to grow in line with demand for more premium product, traditional doughnuts continued their renaissance, and artisan bread products continued to grow in both sales and outlet penetration. There was strong growth in the top four customers, somewhat offset by reduced trading in export markets, particularly France, and also in some smaller customer business closures. The foodservice business also continued to grow its Kara branded sales, whilst still being a key supplier of own brand to core customers.

Thorntons

The Group has recently completed the renewal of its successful, long standing partnership with Thorntons which will extend this collaboration over two decades. The agreement will see the Group continue to produce and market cakes under the much loved Thorntons brand. Thorntons is still one of the fastest growing premium brands within cakes where continued success has come through strong product innovation across both celebration and snacking cakes.

Mary Berry

We are delighted to announce the partnership and launch of the new Mary Berry range in the Spring of this year. The full product range extends to loaf, sharing and celebration cakes which have all been developed in partnership to stay true to Mary Berry's original recipes. The range brings a new dynamic to the cake category by providing a branded solution that appeals to a broader age demographic.

Character Licensed Portfolio

Our character licences portfolio is a key focal point to the business which allows us to develop and produce products that meet consumer trends and occasions. We have a long standing relationship within the licensed industry which we are very proud of. Every licensed partnership is dear to our business and we take pride in being able to work together to bring popular characters to life across different cake formats. Successful licences for the Group this year have included Batman v's Superman, Minions, Star Wars and Emoji which have been linked to big movie releases, together with well established evergreen properties such as Me to You, Peppa Pig and Paw Patrol.

Disney
As a long-term partner of the Disney brand, we have taken a leading role in supporting Disney's strategy to inspire healthier choices for families and we have recently relaunched our celebration cake range with an innovative reduced sugar recipe. Our new range is the first in the UK to launch with Disney Kitchen branding and we continue to drive innovation and consumer enjoyment of the Disney brand in cake.

Mars
Mars has a wide portfolio of confectionery brands and we have worked in collaboration to develop an innovative cake range. The Galaxy and M&M cakes are built around key elements of these classic brands which provide the consumer cakes that meets most consumer occasions.

Vogel's
Vogel's range of 'clean label' breads are crammed to bursting with seeds and grains. Alfred Vogel was a pioneering Swiss nutritionist who created the first Vogel's recipe in the 1950's. He passionately championed natural ingredients, which is why Vogel's loaves are baked without added sugar, emulsifiers, enzymes, or artificial preservatives or flavourings. To this day we share his commitment to tasty food and healthy living inspired by nature. The unique way we bake Vogel's means it's tremendously tasty toasted.

Village Bakery
The range of organic fresh rye bread brands are perfect, if you are looking to avoid wheat. We keep it simple, only using the best organic natural ingredients: The Loyal range of rossisky and seeded rye breads will have the addition of a new Village Bakery pumpernickel rye loaf, made with molasses and a blend of kibbled ryes to give a distinct sweet and sour flavour. Keeping to minimal ingredients of organic flours, water, a little sea salt with the benefit that they are all made with no added yeast, emulsifiers or enzymes.

Cranks
Cranks aspires to wholesome, simple, nutritious food. Our organic wholemeal loaf with organic stoneground flour is fermented for longer. Baked using specific baking processes that produces a loaf with great flavour through its fermentation process is made without any additives such as emulsifiers and enzymes. The popular stoneground wholemeal loaf will be joined by the new Cranks organic wholemeal seeded loaf.

Consumer Trends

Differentiation for our customers whilst fulfilling the needs of the end consumers is key to the Group's success, it follows that innovation and product development is an essential part of the Group's strategy. We have worked under the four broad banners to be able to focus on the macro consumer trends. The continuing challenge for the Group is to match the consumer trends with our dynamic product portfolio. The Group's new product development team reinforces Finsbury's expertise as a leading speciality bakery and provides increased differentiation from our competitors.

Broad Consumer Trends

Better for You	On the Go	Indulgence	Artisan
Ongoing work in cake to meet sugar reduction targets and also butter (fat) mitigation, evidenced by the Group's work on a reduced sugar Disney range of cakes. Low carb and protein rich bread products fall into this category.	Portability, individually wrapped and ready made on the go solutions are all areas of focus including the Group's focus on sharing formats such as bites and tubs, in store bakery brownies and crispies and Kara brand and Johnstone's Food Service cakes.	Small portions of indulgent cakery treats such as Thorntons caramel shortcake, seasonal treats such as Yule log and Costa cake and the new Mary Berry range.	Organic and premium niche bread products.

Licensed brand relationships are key to maintaining product differentiation and growing our specialist product portfolio, and we aim to extend and deepen these partnerships. This year we signed a new multi-year agreement with long-standing partner Thorntons, while entering new licence engagements with Mars, and with Mary Berry, for whom we launched a range of cakes.

Providing quality products, investing in innovation and competing on value helps to strengthen customer relations and support growth initiatives.

Principal Risks and Uncertainties

The Board recognises the need for a robust system of internal controls and risk management. The assessment of risks and the development of strategies for dealing with these risks are achieved on an ongoing basis through the way in which the Group is controlled and managed internally. A formal review of these risks is carried out by the Group on an annual basis. The review process involves the identification of risks, assessment to determine the relative likelihood of them impacting the business and the potential severity of the impact and determination of what needs to be done to manage them effectively. Risk management is integral to the ability of the Group to deliver on its strategic objectives.

The Directors have identified the following as the principal risks and uncertainties that face the Group:

Economic Environment

The market place remains challenging and there is an uncertain macro-economic outlook following the vote to leave the EU. Currency hedging and long-term contracts give the Group time to plan and formulate strategies to face future challenges. The Group will continue to focus on quality and value and will explore new channels, new products and new formats to gain competitive advantage. Forging strong customer relationships and aligning strategic business plans through innovation and category management helps create mutual growth opportunities.

The Impact of Brexit

Brexit brings uncertainty in the following areas:

Labour: The food industry employs many non-UK nationals, the sector in general could see a shortfall in workers. Increasing reliance on UK workers which may push up wage costs may prompt a change in business model.

Material: The weakening of the pound post Brexit has had an impact on ingredient prices.

Regulations: All current regulations on food safety, labelling or health and safety will continue to apply to UK businesses. Product standards will need to be observed by UK companies when trading with the EU.

The Group will respond to the challenges that Brexit brings once negotiations are advanced.

Competitive Environment and Customer Requirements

The environment remains competitive within the bakery sector. The monitoring of key performance indicators at customer level such as service levels and customer complaints is part of the risk management process associated with this specific risk. Providing quality products, investing in innovation and competing on value helps to strengthen customer relations and support growth initiatives. The Group invests heavily in category management, new product development and marketing skills. This investment has helped create an insight into customers and consumer demands.

Product Quality

Product quality is a key strength of the Group and failure to maintain a high standard of safety and food quality would have a severe impact on service levels and customer relationships. The Group's technical function is responsible for the implementation and maintenance of high standards for food safety striving for best practice. Quality assurance procedures are managed at site level and are reviewed continuously with improvements made as appropriate. The operating subsidiaries are subject to regular internal and independent food safety and quality control audits including those carried out by, or on behalf of, our customers. The Group maintains product recall insurance cover to mitigate the potential impact of such an occurrence.

Commodity and Labour Pressures

Bakery entails the use of commodities whose price is determined by worldwide demand and macro-economic factors. Commodity pressures have increased as a consequence of a number of factors; 1) A step change in the value of Sterling against both the Euro and Dollar following the Brexit vote. 2) The commodity cycle which, in the recent past, has been relatively low. The cycle has seen significant increases in the price of a number of commodities which are over and above any exchange rate deterioration. Finally, 3) European policies particularly in the areas of butter and sugar.

The Group maintains a high level of expertise in its buying team and will consider long-term contracts where appropriate to reduce uncertainty in input prices. The team also cultivates strong relationships with major suppliers to ensure continuity of supply at competitive prices. Regular renovation and innovation in our product range can help to manage margin pressures in an effective manner as far as the competitive environment allows. The Group also purchases forward foreign currency in order to minimise the fluctuation of input costs linked to future currency conversion rates.

The National Living Wage is driving forward the cost of labour ahead of inflation and demand related adjustments. More recently the future availability of labour has become a concern. Ongoing capital investment and improvements in operational efficiency help reduce the impacts of both labour availability and cost as well as material inflation.

Pension Fund Deficit

The Group has one defined benefit pension scheme within its Memory Lane Cakes Limited business in Cardiff. The scheme was closed to new members in 2010 to reduce the funding risk to Memory Lane Cakes. The valuation of the scheme on a technical provision basis as well as the underlying performance of the invested assets can cause large fluctuations in valuations. There is an agreed deficit recovery plan fixed until September 2023 or until a new schedule is agreed based on the next valuation which will be at 31 December 2018.

Cyber Security

The Group is exposed to random and malicious attacks from cyber criminals. The maintenance of protections software is one tool in the fight to protect our data. In addition, the Group is investing to implement common information systems across all companies with standardised protection, operating requirements and security protection. Finally, real time back-up, training and regular communication pulls the Group's defences together.

Group Systems

The Group will, during the next financial year, complete the upgrade of its business systems across UK bakery. The ERP system is the latest version of the existing system within the Fletchers business acquired in 2014. Recognising the inherent risks to a systems upgrade, an appropriate Corporate Governance structure has been put in place, a Steering Committee comprising senior operational management from both businesses and chaired by an independent implementation specialist with KPMG engaged to independently assess and advise the Board on progress and risks to the business associated with the program. The fact that the new ERP system is the latest version of the existing system in operation within the Fletcher's business is also a significant risk reduction factor.

Dividend

Subject to shareholder approval at the Company's AGM on 22nd November 2017, the final dividend of 2.0 pence per share will be paid on 22 December 2017 to all shareholders on the register at 24 November 2017 and will be recognised in the financial year ending 30 June 2018.

Financial Review

Continuing Group revenue for the 52 week period to 1 July 2017 was up 0.3% to £314.3 million (2016: £313.5 million 52 weeks, £319.7 million 53 weeks). Operating profit margins were 5.5% (2016: 5.3%). Capital investment, improvement in operational efficiency and product mix are the main drivers for the improvement in margin. Administrative expenses have decreased despite inflationary pressures. This decrease is driven by continued focus on overhead control, operational improvements and efficiencies from record levels of capital investment. The prior year also included a charge of £2.8 million for the cancellation of legacy share options.

Grain D'Or Business

The Group's Grain D'Or business was acquired as part of the Fletchers acquisition in October 2014, it is a producer of premium baked products for the UK pastry sector and based in London. The business has been historically loss making and despite the implementation of a range of initiatives to improve the business, including strict cost control and new working practices, the site remained loss making in the year to 1 July 2017. The Company now proposes to close the site. A formal consultation with representatives of the workforce commenced on 1 September 2017. The consultation is expected to conclude mid October 2017. Until this consultation period concludes uncertainty remains over the use of the assets. In light of this, a decision has been taken to impair the assets used in the business by £4.0 million in the year to 1 July 2017.

Our foodservice business provides differentiation from our bakery retail sector business by servicing wholesalers and end users – such as pubs, hotels and restaurant chains – with ranges of convenient bread and cakes products. It also has a healthy export trade. Developing our foodservice channel is part of our strategy for growth.

The tables below show what the Directors consider to be the underlying performance of the Group, the adjustments eliminate the impact of significant non-recurring items and other accounting items.

52 Week Period ended 1 July 2017

	Operating performance £000	Significant non-recurring items £000	Defined benefit pension scheme £000	Fair value of interest rate swaps/ foreign exchange contracts £000	As per Consolidated Statement of Comprehensive Income £000
Revenue	**314,296**	-	-	-	314,296
Cost of sales	**(216,493)**	-	-	-	(216,493)
Gross profit	**97,803**	-	-	-	97,803
Other costs excluding depreciation and amortisation	**(72,883)**	(4,000)	200	(71)	(76,754)
EBITDA	**24,920**	(4,000)	200	(71)	21,049
Depreciation and amortisation	**(7,485)**	-	-	-	(7,485)
Results from operating activities	**17,435**	(4,000)	200	(71)	13,564
Finance income	**-**	-	-	555	555
Finance costs	**(877)**	-	(204)	-	(1,081)
Profit before tax	**16,558**	(4,000)	(4)	484	13,038
Share of losses of equity accounted investees after tax	**(22)**	-	-	-	(22)
Taxation	**(3,578)**	680	1	(62)	(2,959)
Profit for the year	**12,958**	(3,320)	(3)	422	10,057

53 Week Period ended 2 July 2016

	Operating performance £000	Significant non-recurring items £000	Defined benefit pension scheme £000	Fair value of interest rate swaps/ foreign exchange contracts £000	As per Consolidated Statement of Comprehensive Income £000
Revenue	**319,680**	-	-	-	319,680
Cost of sales	**(217,092)**	-	-	-	(217,092)
Gross profit	**102,588**	-	-	-	102,588
Other costs excluding depreciation and amortisation	**(77,861)**	(4,290)	117	(134)	(82,168)
EBITDA	**24,727**	(4,290)	117	(134)	20,420
Depreciation and amortisation	**(7,629)**	-	-	-	(7,629)
Results from operating activities	**17,098**	(4,290)	117	(134)	12,791
Finance income	**2**	-	-	219	221
Finance costs	**(1,060)**	-	(148)	-	(1,208)
Profit before tax	**16,040**	(4,290)	(31)	85	11,804
Share of losses of equity accounted investees after tax	**(14)**	-	-	-	(14)
Taxation	**(3,272)**	-	6	(20)	(3,286)
Profit for the year	**12,754**	(4,290)	(25)	65	8,504

Details of significant non-recurring items are detailed in Note 4.

Earnings Per Share (EPS)

EPS comparatives to the prior year can be distorted by significant non-recurring items and other items highlighted on the previous page, as well as the impact of the 53rd week for the previous financial year. The Board is focused on growing adjusted diluted EPS, which is calculated by eliminating the impact of the items highlighted on the previous page as well as amortisation of intangibles and incorporates the dilutive effect of share options. Adjusted diluted EPS is 9.5p (2016: 9.5p for the 52 week period).

	52 week 2017	52 week 2016	52 week 2015
Basic EPS	7.1p	5.9p	5.8p
Adjusted basic EPS	9.8p	9.6p	8.3p
Diluted basic EPS	6.9p	5.8p	5.6p
Adjusted* diluted EPS**	**9.5p**	**9.5p**	**8.0p**

* Further details can be found in Note 9.
** Diluted EPS takes basic EPS and incorporates the dilution effect of share options.

The prior year to 2 July 2016 was a 53 week period. Like for like figures have been calculated using financial data by excluding the 53rd week.

Cash Flow

There was an increase in our working capital requirement of £2.5 million (2016: £1.6 million) in the financial year, corporation tax payments made in the financial year totalled £2.7 million (2016: £1.6 million), the payments in the current and prior year took account of the research and development tax relief due to the Group and tax losses being utilised. Capital expenditure in the year amounted to £12.5 million (2016: £12.1 million).

Debt and Bank Facilities

The Group's total net debt is £17.5 million (2016: £19.7 million) down £2.2 million from the prior year. Within this total, £11.6 million is due within one year, including cash at bank and invoice finance (2016: £10.9 million).

The Group's debt facility is a bilateral facility with HSBC Bank Plc and Lloyds Bank Plc totalling £50.9m, the key features of the facility are as follows:

- Overdraft (£2.0m)
- Term loan (£13.4m)
- Confidential invoice discounting facility (£22.0m)
- Mortgage facility (£3.5m)
- Rolling asset finance facility (£2.0m)
- Revolving credit facility (£8.0m)

Note 18 gives details of the amounts drawn on these facilities and maturity dates.

The Group is able to offer strong asset backing to secure its borrowings. The Group owns freehold sites at Memory Lane in Cardiff, Fletchers' site at Sheffield and Lightbody and Campbells in Scotland. In addition, the Group has a strong trade debtor book to support the invoice discounting facility, made up primarily of the UK's major multiple retailers. This debtor book stood at £45.2 million (2016: £44.9 million) at the period end date.

The Group recognises the inherent risk from interest rate rises, to mitigate these risks the Group uses interest rate swaps. There was no interest rate swap coverage in place at the year end, (2016: coverage of £9.0 million, equivalent to 46% of total net bank debt). The Group has one forward dated interest rate swap for five years from 3 July 2017 with a coverage of £20 million (2016: £9 million), the forward dated swap has a rate of 0.455% (2016: weighted average rate 1.8%).

The effective interest rate for the Group at the year end, taking account of the interest rate swap in place with base rate at 0.25% and LIBOR at 0.42%, was 2.15% (2016: 3.0%). A £3.0 million swap fixed at 1.65% expired on 22 May 2017 and a £6.0 million swap fixed at 1.89% expired on 2 June 2017.

Financial Covenants

The Board reviews the Group's cash flow forecasts and key 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.

Interest cover (based on adjusted earnings before interest, tax, depreciation and amortisation – EBITDA) for the 52 weeks to 1 July 2017 was 28.4 (2016: 23.4). Net bank debt to EBITDA (based on adjusted EBITDA) for the year to 1 July 2017 was 0.7 (2016: 0.8).

Taxation

The Group taxation charge for the year was £3.0 million (2016: £3.3 million). This represents an effective rate of 21.4% on profits before significant non-recurring items (2016: 20.4%). Further details on the tax charge can be found in Note 8 to the Group's Financial Statements.

Non-Financial Key Performance Indicators

A range of non-financial key performance indicators are monitored at site level covering, amongst others, customer service, quality and health and safety. The Group Board receives an overview of these on a regular basis.

During the next financial year the Group will complete the upgrade of its business systems across UK bakery.

Dedicated resource continues to work on sugar and salt reduction targets as part of the Government Obesity Strategy and Public Health England recommendations.

Environmental Matters

As part of the environmental activities, site wide LED replacement programs are ongoing along with continued focus on energy usage such as oven burner efficiencies and insulated traywash facilities. Trade effluent reduction initiatives are ongoing with investment in a new effluent treatment plant completed at one of our larger bakeries.

Employee Social and Community Issues

With the successful roll out of the Groups vision and values the Group holds various family fun days as part of the employee engagement program. We have links with employment agencies and continue to participate in employability work placements that help provide work placements for individuals who find it difficult to get back to full time employment. Various charities are supported and in some instances the site's employee forum decides on the local charity. In an attempt to promote health and wellbeing fitness and running clubs have been established at a local basis.

Technical Matters

All sites hold grade A, or the highest AA rating under the British Retail Consortium version 7 standard. As a Group, all technical functions have come together to establish a Group Technical Strategy which is a dynamic three year plan covering all aspects of people, food safety, legal compliance and the establishment of a quality culture underpinned by consistent process control. Major investment has also taken place in the form of upgrading team member facilities to a best in standard and we have continued to invest in a strong visual good manufacturing programme on site.

Health continues to be a major focus for the business. Dedicated resource continues to work on sugar and salt reduction targets as part of the Government Obesity Strategy and Public Health England recommendations. In conjunction with a major brand owner the Group were first to market providing a range of licensed products which were 18 months in development and which exceed these requirements.

The Strategic Report was approved by the Board of Directors on 15 September 2017 and was signed on its behalf by:

Stephen Boyd
Director

Corporate Governance
Report on Corporate Governance

The Board is committed to high standards of corporate governance and although the Company is not required to comply with the UK Corporate Governance Code ("the Code"), the Company's corporate governance framework is based on the Code's main principles to the extent appropriate for the Company. The Board reviews its corporate governance arrangements on a regular basis.

The Board directs the activities of the Group and develops its strategy and oversees implementation of strategy. The Board meets at least five times during the year and reviews performance at each meeting. There is a schedule of matters which are reserved to the Board for decision. These matters include:

- Strategy
- Acquisition policy
- Corporate governance
- Risk management
- Health and safety
- Approval of major capital expenditure
- Approval of annual budgets
- Approval of Annual Reports
- Dividend recommendations
- Committee reports

The Board comprises the Non-Executive Chairman, Peter Baker, two Executive Directors (John Duffy, Chief Executive and Stephen Boyd, Finance Director), and three Non-Executive Directors, Raymond Duignan, Marnie Millard and Zoe Morgan. Bob Beveridge was appointed to the Board as a Non-Executive Director on 1 July 2017.

There is a clear division of responsibilities between the Chairman and the Chief Executive. The Chairman is responsible for leadership of the Board, setting its agenda and monitoring its effectiveness. He meets regularly and separately with the Chief Executive and the other Non-Executive Directors. The Board has a culture of constructive challenging and continuous improvement.

Board Committees

The Board has delegated certain responsibilities to the Audit, Nomination and Remuneration Committees.

The Audit Committee is chaired by Raymond Duignan with Zoe Morgan as the other member. Further details of its activities are given in the Audit Committee Report on pages 25 to 26.

The Remuneration Committee is chaired by Raymond Duignan with Marnie Millard as the other member. Further details of the Remuneration Committee activities are given in the Directors' Remuneration Report on pages 27 to 32.

Peter Baker chairs the Nomination Committee. The Committee's main responsibilities include:

- Advising the Board on the appointment of Directors
- Reviewing the composition and size of the Board
- Evaluating the balance of skills, knowledge, experience and diversity of the Board
- Making recommendations on succession planning

Internal Controls and Risk Management

The Board has overall responsibility for the system of internal controls to safeguard shareholders' investment and the Group's assets, as well as reviewing the effectiveness of those controls. The system of internal controls is designed to manage rather than eliminate the risks of failure to achieve the Group's objectives and can only provide reasonable, and not absolute, assurance against material loss and misstatement. The Group continues to progress with initiatives to improve managing its risks to create value.

Dialogue with Shareholders

The Board maintains a general policy of keeping all interested parties informed by regular announcements and update statements.

In implementing this policy, the Board keeps in mind the distribution of shareholders between direct, nominee and institutional shareholders. Communications are then distributed between these groups accordingly.

Specific methods of communication are:

- Annual general meetings
- Broker briefings
- Broker and analysts visits to operating sites
- Letters to shareholders when appropriate
- Corporate website (www.finsburyfoods.co.uk)

The Directors

Achieving balance

Peter Baker
Non-Executive Chairman

Peter joined the Board on 1 July 2014 and is Chairman of the Nominations Committee. Peter has over 30 years' senior CEO and Board level experience within the global bakery and consumer packaged goods industry. He also chairs another Board and is a Non-Executive Director in one other business. Peter held the position of Managing Director of Maple Leaf Bakery from 2009 to 2013, moving into this position after the sale of La Fornaia Bakeries, where he was the CEO. Prior to these roles, Peter held COO and Divisional Managing Director positions at RHM in the Consumer Brands, British Bakeries and Cereals Divisions (including Rank Hovis Mills). Peter was previously a Non-Executive Director at Jordan's Cereals, now a part of Associated British Foods. He has also served as Vice President of CIAA (a European trade association for food and drink) and was on the Executive Board of FDF the UK Food and Drink Federation.

John Duffy
Chief Executive Officer

John was appointed CEO of Finsbury Food Group with effect from 30th September 2009, following a year as interim COO, and has led the turnaround of an indebted Group with a market capitalisation of only £6m in 2009 to the restructured and fast growing £150m+ market cap growth business of today. This transformation required significant operational improvements and new leadership throughout the Group as well as both a business disposal and several acquisitions. The acquisition of Fletchers Bakery Group for £56m in 2014 delivered a step change in scale to £300m+ sales and diversification into the faster growing 'out of home eating' channel.

Following an engineering degree, John's early career was in the oil industry in exploration and production with Shell International. John then completed a full-time MBA at the University of Strathclyde Business School before enjoying 10 years at Director-level in manufacturing and logistics roles at Mars, the global FMCG business. This was followed by private equity experience within the portfolio investments of both L&G Ventures and Bridgepoint e.g. as Operations Director at crisps and snacks manufacturer Golden Wonder and Managing Director of WT Foods' largest chilled foods subsidiary, Noon Products, before and after its sale to Kerry Foods.

John has Non-Executive experience in both start-up and established businesses including Denby the household pottery manufacturer.

Marnie Millard
Non-Executive Director

Marnie was appointed to the Board on 1 February 2016. Marnie, is currently Group Chief Executive of Nichols Plc, an AIM listed branded soft drinks group, serving both the UK retail and out of home channels, as well as achieving international sales across 70 countries. Marnie joined the Nichols group in October 2012 as MD of Vimto Soft Drinks. She has worked in the soft drinks industry for

the last 20 years in a number of senior roles with Macaw Soft Drinks, Refresco Gerber Ltd. She was appointed Nichols Plc Group Chief Executive in May 2013.

Stephen Boyd
Group Finance Director

Steve was appointed Group Finance Director in January 2010. Steve has spent 21 years in the food manufacturing sector and previously was Group Finance Director at Golden Wonder, subsequent to that was Group Finance Director and Chief Operating Officer at WT Foods Group Plc. Steve worked with John Duffy at both Golden Wonder and WT Foods.

Bob Beveridge
Non-Executive Director

Bob was appointed to the Board on 1 July 2017. He is a Chartered Accountant with extensive financial management, city and corporate transaction experience in consumer goods and technology companies, including Cable & Wireless Communications Plc, Marlborough Stirling Plc, and McBride Plc, a European private label manufacturer. For the last 6 years he has been a portfolio Independent Director and Audit Committee Chairman and is currently Senior Independent Director on the Boards of Brady Plc and Inspiration Healthcare Plc. He also provides mentoring services to aspiring and existing Finance Directors via the Institute of Chartered Accountants.

Raymond Duignan
Non-Executive Director

Raymond was appointed to the Board in July 2013. He has extensive industry experience having set up a specialist investment bank, Stamford Partners, in the mid-1990s advising the European food and drink industries with clients including many blue chip companies. He is currently a Non-Executive Director of Science in Sport Plc, where he chairs the Audit Committee, and is a member of the Advisory Board of Active Private Equity Partners, the consumer focused investment group. He is Chairman of both the Audit and Remuneration Committees.

Zoe Morgan
Non-Executive Director

Zoe was appointed to the Board on 4 July 2016. Zoe has 15 years Executive Director experience with significant retail, consumer and financial services businesses, including the role of Group Marketing Director of The Co-operative Group, HBoS Retail and Boots UK. Zoe has developed a broad commercial background in multi-site, retail, manufacturing and service businesses, with key strengths in strategy, brand management and customer relationship management. For the last 10 years she has held a portfolio of Non-Executive Directorships and is currently a Board member of Moss Bros, Kind Consumer and Kintell Ltd.

Directors' Report

Background

The Group is a speciality bakery group which is focused on premium, celebration and well-being products. These products are supplied both under the retailers' own brands and through a number of licensed brands to which the Group has access.

A review of the activities and any likely future developments in the business of the Group is given in the Chairman's Statement, Chief Executive's Report and the Strategic Report on pages 3 to 19.

Dividend

An interim dividend for the six months to 31 December 2016 of 1.0p per share was paid on 21 April 2017 to shareholders on the register at the close of business on 31 March 2017. Subject to shareholder approval at the Company's AGM on 22 November 2017, the final dividend of 2.0p per share will be paid on 22 December 2017 to all shareholders on the register at 24 November 2017.

Directors and their Interests in the Company

The Directors and brief biographies are detailed on pages 21 to 22.

In accordance with the Articles of Association, Stephen Boyd and Raymond Duignan retire by rotation and being eligible offer themselves for re-election at the Company's forthcoming AGM.

In accordance with the Articles of Association, Bob Beveridge is required to be re-appointed as Director, having been appointed as Director since the company's last AGM.

The beneficial interests of the Directors in the Ordinary Shares of the Company on 1 July 2017 and 2 July 2016 are set out below:

Ordinary Shares	**1 July 2017**	2 July 2016
P Baker	**86,000**	86,000
S A Boyd	**1,011,455**	961,034
J G Duffy	**2,269,238**	2,197,599
M Millard	**9,366**	-
Z Morgan	**70,028**	-

Details of Directors' share options are set out in Note 6 to the Financial Statements. There has been no change to the Directors' share interests since 1 July 2017.

Details of the emoluments of the Directors are given in Note 6 to the Financial Statements.

Zoe Morgan was appointed as a Non-Executive Director on 4 July 2016. Her shareholding on appointment was 20,981.

Share Capital

Details of the changes in the share capital of the Company during the year are set out in Note 23 to the Financial Statements.

Substantial Interests

The following substantial interests (3 percent or more) in the Company's issued share capital have been notified to the Company as at 28 August 2017:

	Number of shares	**% of issued share capital**
Ruffer LLP	20,925,616	16.00%
Miton Asset Management Ltd	14,012,959	10.75%
Hargreave Hale	12,191,357	9.35%
Investec Wealth & Investment Limited	6,848,217	5.25%
London Finance & Investment Group P.L.C	6,000,000	4.60%
Shroder Investment Mgt	5,104,702	3.92%
Downing LLP	3,907,735	3.00%

Research and Development

Research and development (R&D) expenditure is written off in the year in which it is incurred.

Directors and Officers' Liability Insurance

The Company maintains a Directors and Officers liability insurance policy.

Financial Instruments

The Group's financial instruments comprise mortgage, asset finance facilities, a confidential invoicing facility, revolving credit facility, cash and liquid resources, and various items arising directly from its operations, such as trade creditors. The main purpose of these financial instruments is to finance the Group's acquisitions and operations. It is the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing these risks, which have remained substantially unchanged for the year under review. The policies are summarised below:

Interest Rate Risk

The Group finances its operations by retained profits and bank borrowings. A suite of borrowing facilities totalling £50.9 million is available of which £17.5 million was drawn at the balance sheet date leaving a headroom of £33.4 million. The interest rate risk is managed through interest rate swap transactions. The Group entered into a forward dated swap for £20.0 million for five years from 3 July 2017 (fixed) at 0.455%. The total balance of swaps at 1 July 2017 is nil (2016: £9.0 million). The counterparty to these transactions is HSBC Bank Plc.

Liquidity Risk

Short-term flexibility is available through existing bank facilities and the netting off of surplus funds. Full details of the Group's financial assets and liabilities are given in Note 21.

Foreign Exchange Risk

The Group uses forward foreign exchange contracts to manage its exposure to fluctuations in foreign currency rates. Full details are given in Note 21.

Diversity

Finsbury Food Group is committed to encouraging diversity, promoting a diverse culture where everyone is treated with respect and valued for their individual contribution and creating a work environment free of bullying, harassment, victimisation and unlawful discrimination. We have a Diversity Policy in place to ensure that selection for employment, promotion, development or any other benefit is on the basis of merit and ability and does not impact negatively upon diversity. It is a key objective to ensure that all employees are helped and encouraged to fulfil their potential.

Equal Opportunities

It is our policy to ensure equal opportunity in recruitment, selection, promotion, employee development, training and reward policies and we have an equal opportunities and diversity policy in place. It is a key objective to ensure that successful candidates for appointment and promotion are selected taking account of individual ability, skills and competencies without regard to age, gender, race, religion, disability or sexual orientation.

Involvement of Employees

Employees are key to the Company's success and we rely on a committed workforce to help us achieve our business objectives. Employees are encouraged to operate in an open environment, embracing teamwork and aligning personal development with the strategy of the business and their behaviours with Company Values. We are keen to engage our employees by providing an environment where they can contribute their own ideas and challenge those of others. We are committed to involving employees and consider that good communication helps to achieve this. All sites have regular briefings, employee forums and communication mechanisms which are designed to keep colleagues informed of, amongst other things, the financial and economic factors that affect the Company's performance. Many sites also hold open days to allow employees' families to see the environment in which their family members work.

Political and Charitable Contributions

During the year charitable donations amounting to £75,000 (2016: £13,000) were made. No political donations were made.

Going Concern

On the basis of current financial projections and available funds and facilities, the Directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future and, therefore, consider it appropriate to prepare the Financial Statements on the going concern basis. Further details are set out in the basis of preparation.

Auditor

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor is to be proposed at the forthcoming AGM.

- So far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- Each Director has taken all the steps that they ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors' Report was approved by the Board of Directors on 15 September 2017 and was signed on its behalf by:

Stephen Boyd
Director

Audit Committee Report

Role and Responsibilities of the Audit Committee

The principal responsibilities of the Committee are to:

- Review and monitor the integrity of the Financial Statements of the Group and assist the Board in fulfilling its responsibilities relating to external financial reporting and similar announcements.
- Review significant issues and the judgements of management and the methodology and assumptions used in relation to the Financial Statements.
- Review and monitor the Group's financial control systems and risk management procedures.
- Recommend the appointment and/or reappointment of the external auditor and approve their terms of engagement.
- Review and monitor the independence of the external auditor and the effectiveness of the audit process.
- Implement and review policy on external auditor non-audit services.
- Review and monitor the Group's compliance with all regulatory legislation and current practice.
- Report to the Board on how it has discharged its responsibilities.

The full terms of reference, which can be found on the Company's website at www.finsburyfoods.co.uk, are reviewed periodically by the Board.

Membership

The Committee is chaired by me, and, the other member is Zoe Morgan, a Non-Executive Director.

The Audit Committee met three times during the year. The Finance Director is invited to attend Committee meetings together with other senior members of the finance team including those members of staff that conduct internal audits. The external auditor attends those meetings involving the Financial Statements, the annual audit and other significant matters. Time is set aside during at least one meeting each year for the Committee to hold discussions in private with the external auditor in the absence of management and Executive Directors.

External Auditor

The Committee carried out an assessment of the effectiveness of the external audit process which focused on criteria that the Committee considered to be important factors in an effective audit process. These factors included the quality of audit staff, the planning and execution of the audit and the role of management in the audit process. Following this assessment, the Committee concluded that the external audit process remained effective and that it provides an appropriate independent challenge.

The engagement of the auditor to carry out non-audit services is approved in advance by me or, in the case of a significant instruction, by the Committee. This enables the Committee to satisfy itself of the auditor's independence and objectivity.

Internal Controls and Risk Management

The Committee is responsible for reviewing the effectiveness of the Group's system of internal controls. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Group management prepare an Annual Report for the Committee's consideration that identifies the risks and uncertainties to which the Group is exposed, the procedures in place to mitigate those risks and uncertainties and the potential impact on the Group. The Committee reviews this Report and any concerns that it has over the adequacy of the controls in place, or the level of risk accepted by the Group, are reported to the Board. The principal risks and uncertainties to which the Group is exposed are considered by the Board and are set out in the Strategic Report on pages 14 to 15. Following this review, the Committee, is satisfied that the Group has in place effective internal control systems and risk management. The Committee continues to keep under review the need for a separate dedicated internal audit function in the Group. The Committee remains satisfied that the Group's system of internal control is appropriate for a Group of the size and nature of the Company and the Committee's current view is that a separate formal independent internal audit function is not required at this time. The Committee will monitor the situation closely as the Group continues to expand.

A programme of rolling internal control and risk reviews is monitored by the Committee which considers reports on these reviews at each meeting and monitors any follow up action that is required.

External Reporting

The Board delegates primary responsibility for the preparation of complete, balanced and accurate Financial Statements and disclosures, in accordance with Financial Reporting Standards and regulations, to the Finance Director. The responsibility of the Committee includes consideration of significant accounting policies, any changes in policies and significant estimates and judgements, taking into account the external auditor's view, and to report back to the Board on any concerns that it might have. The Audit Committee reviews the clarity and completeness of disclosures within the Financial Statements. Ultimate responsibility for reviewing and approving the annual Financial Statements and half yearly reports remains with the Board.

The Committee also reviews related information presented with the Financial Statements, in particular the Strategic Report, the Directors' Report and the Report on Corporate Governance.

Key Agenda Items

In addition to matters referred to elsewhere in this Report, during the year, the Committee also considered:

- Revenue recognition
- New business system introduction and compliance
- Interest rate and currency hedging
- Pension disclosures
- Impairment reviews
- Group insurance programme
- Internal authorisation levels and procedures

If any reader of these accounts has suggestions for improvement in the content or the presentation of the Financial Statements, please can they let me know by writing to info@finsburyfoods.co.uk.

Raymond Duignan
Chairman of the Audit Committee

Directors' Remuneration Report (unaudited)

Statement from the Chairman of the Remuneration Committee

Dear Shareholder

I am pleased to present the Directors' Remuneration Report for the year ended 1 July 2017.

The Remuneration Committee believes that the Directors' Remuneration Policy remains appropriate and will continue to apply it in 2017-18. Accordingly, we have not included the Directors' Remuneration Policy in this Report, however, a copy is available in our investor section of the website at www.finsburyfoods.co.uk/investor-relations/annual-reports.

The Annual Report on Remuneration provides details of the amounts earned in respect of the year ended 1 July 2017 and how the Directors' Remuneration Policy will be operated for the year commencing 2 July 2017.

Similar to last year and as a matter of best practice, the Annual Report on Remuneration has been prepared taking into account the remuneration reporting regulations applicable to fully listed companies in the UK.

Review of the 2016-17 Financial Year

As described earlier in the Annual Report the Company has delivered a solid performance, with continued organic growth in 2016-17. Alongside this growth, our capital investment strategy, together with our continued efficiency programme has resulted in improved operating margins.

The 2016-17 annual bonus was subject to an EBITDA performance metric. The Company achieved £24.9 million EBITDA for 2016-17 which was above our forecast for the year. Consequently, this resulted in 87% of salary being earned as an annual bonus. In line with the Committee's commitment to align Executives' interests with those of shareholders, 50% of total bonuses earned in the year will be paid as cash and 50% in the form of shares, in order to develop further the shareholdings of the Executive Directors. Further details are set out on page 29. The current personal shareholdings of J G Duffy and S A Boyd equate to circa 7.5 and 4.6 times salary respectively.

A new long-term incentive plan was introduced in 2015 following discussions with shareholders. It was designed to motivate the senior management team over the longer term to deliver the Group's strategy and to reward appropriately, reflecting the contribution to shareholder value creation. The first awards granted under the Company's LTIP were made in 2015 and these vested in respect of performance in the three financial years to 1 July 2017. The awards vested at 97.45% of the maximum due to strong share price and EPS performance over the period. For continued alignment with shareholders, the vested awards are subject to a further two year holding period. Full details of the vested awards are provided on page 30.

Awards under the LTIP were made during the year in line with the Remuneration Policy and will vest based on relative Total Shareholder Return (TSR) performance and absolute EPS targets over the three year period to 2019. These awards are subject to a two year post vesting holding period.

The Committee remains committed to a responsible approach to executive pay and believes that salary increases above wider workforce increases will only be awarded in limited circumstances. S A Boyd and J G Duffy were both awarded a 1.8% salary increase which was in line with increases for the wider workforce.

Outlook for the 2017-18 Financial Year

Details in relation to the application of the Directors' Remuneration Policy in 2017-18 are set out on page 28.

Raymond Duignan
Chairman of the Remuneration Committee

15 September 2017

Directors' Remuneration Policy Report (unaudited)

The full Policy can be viewed in the investor section of the website at www.finsburyfoods.co.uk/investor-relations/annual-reports.

The main aim of the Company's Policy is to align the interests of Executive Directors with the Company's strategic vision and the long-term creation of shareholder value. The Company aims to provide returns to shareholders through both organic and acquisitive growth. The Policy is intended to remunerate our Executive Directors competitively and appropriately for effective delivery of this and allows them to share in this success and the value delivered to shareholders. The Policy is based on a broad set of remuneration principles:

- Promote shareholder value creation
- Support the business strategy
- Promote sound risk management
- Ensure that the interests of the Directors are aligned with the long-term interests of shareholders
- Deliver a competitive level of pay for the Directors without paying more than is necessary to recruit and retain individuals
- Ensure that the Executive Directors are rewarded for their contribution to the success of the Group and share in the success delivered to shareholders and
- Motivate the Directors to deliver enhanced sustainable performance.

Directors' Remuneration Policy Report (unaudited)

Unaudited Annual Report on Remuneration

Single Total Figure of Remuneration

The tables below detail the total remuneration **earned** by each Director in respect of the financial years ended 1 July 2017 and 2 July 2016:

2017	Salaries/fees £000	Taxable benefits £000	Annual bonus £000	Other £000	LTIP[1] £000	Total remuneration £000
Executive Directors						
J G Duffy	349	12	304	-	1,238	1,903
S A Boyd	253	12	220	-	784	1,269
	602	24	524	-	2,022	3,172
Non-Executive Directors						
P Baker	75	-	-	-	-	75
E J Beale	23	-	-	-	-	23
R P E Duignan	60	-	-	-	-	60
M J Millard	53	-	-	-	-	53
P J Monk	23	-	-	13	-	36
Z Morgan	53	-	-	-	-	53
	287	-	-	13	-	300
	889	**24**	**524**	**13**	**2,022**	**3,472**

2016	Salaries/fees £000	Taxable benefits £000	Annual bonus £000	Other £000	LTIP £000	Total remuneration £000
Executive Directors						
J G Duffy	342	12	342	-	-	696
S A Boyd	241	12	241	-	-	494
	583	24	583	-	-	1,190
Non-Executive Directors						
P Baker	75	-	-	-	-	75
E J Beale	45	-	-	-	-	45
R P E Duignan	50	-	-	-	-	50
M J Millard	17	-	-	-	-	17
P J Monk	40	-	-	30	-	70
	227	-	-	30	-	257
	810	**24**	**583**	**30**	**-**	**1,447**

1. Long-term incentive awards vested with respect to the performance period ending 1 July 2017 and are subject to a two year holding period.

Notes to the Table

Base Salaries

The base salaries for the Executive Directors are set with effect from 1 October each year. The salaries in the financial years ended 2 July 2016 and 1 July 2017 were as follows:

Executive Director	From 1 October 2015	From 1 October 2016	Percentage increase
J G Duffy	£344,072	£350,265	1.8%
S A Boyd	£250,000	£254,500	1.8%

Taxable Benefits

The taxable benefits for the Executive Directors in the year included a car allowance and private medical insurance.

Annual Bonus

The annual bonus is the total value of the bonus earned in respect of the financial year (including the amount delivered in shares). For the financial year ended 1 July 2017 Executive Directors were able to earn a bonus of up to 100% of annual base salary subject to the achievement of stretching EBITDA performance targets.

The following table sets out the bonus pay-out to the Executive Directors for 2016-17 and how this reflects EBITDA performance for the year.

Performance measure	Actual performance	Resulting level of award for each Executive as a percentage of salary
Earnings before interest, tax, depreciation and amortisation (EBITDA)	EBITDA £24,920,000	87%

Long-term Incentives

Awards granted on 26 June 2015 were based on performance over the three financial years to 1 July 2017 and vested as to the amounts set out below. These awards are subject to a two year holding period.

	Performance conditions	Actual performance	% of this element vesting	% of award
50% of the award subject to adjusted diluted Earnings Per Share in the final year of the performance period	Below the threshold vesting target of 7.29p, none of this component vests. If adjusted diluted EPS is 7.29p 25% vests, at 10.23p 100% vests. Vesting is determined on a straight-line basis between these figures.	10.03p	94.90%	47.45%
50% of the award based upon Relative Total Shareholder Return against the FTSE Small Cap (excluding investment trusts) ("TSR") over the performance period.	At below median relative TSR ranking, none of this component of the award will vest. 25% of this component will vest at median ranking. 100% vesting at upper quartile or above ranking. Vesting determined on a straight-line basis between these points.	Above upper quartile	100.00%	50.00%
Total % of award vesting				**97.45%**

	Number of shares granted	Number of shares vesting	Value of LTIP shares vesting*
J G Duffy	1,137,898	1,108,881	£1,237,741
S A Boyd	721,217	702,825	£784,499

*The LTIP has been valued based on the three month average share price to the financial year end of 111.6 pence per share.

Details of the LTIP awards granted on 27 September 2016 are given in the table below:

	Number of shares	Basis of award**	Performance period	Performance conditions
J G Duffy	515,464	200% of salary	3 financial years from 3 July 2016	50% subject to EPS growth and 50% subject to relative TSR (further details overleaf).
S A Boyd	374,532	200% of salary	3 financial years from 3 July 2016	

**The basis of award was calculated using the average price of the shares over the three business days following the announcement on 19 September 2016 of the Company's preliminary results for the year ended 2 July 2016.

Directors' Remuneration Policy Report (unaudited)

Awards will be subject to a further two year holding period following the end of the performance period.

Vesting of 50% of the award will be based upon the amount of the adjusted diluted Earnings Per Share (EPS) delivered in the final Financial Year of the performance period. Below the threshold vesting target of 10.23p, none of this component of the award will vest. 25% of this component will vest if adjusted diluted EPS is 10.23p, with 100% vesting at 11.80p, and vesting determined on a straight-line basis between these figures.

Vesting of 50% of the award will be based upon Relative TSR against the FTSE Small Cap (excluding investment trusts) over the performance period. At below median relative TSR ranking, none of this component of the award will vest. 25% of this component will vest at median ranking, with 100% vesting at upper quartile or above ranking, and vesting determined on a straight-line basis between these points.

The awards are also subject to a general performance underpin assessing factors, including ROCE and other financial indicators of performance over the performance period, at the discretion of the Remuneration Committee.

Chairman and Non-Executive Director Fees

Details of Chairman and Non-Executive Directors' fees for 2016-17 are as set out below.

Chairman fee	Non-Executive Director fee	Chairman of the Remuneration Committee	Member of the Remuneration Committee	Chairman of the Audit Committee	Member of the Audit Committee
£75,000	£50,000	£5,000	£2,500	£5,000	£2,500

Payments Made to Former Directors during the Year

No payments were made in the year to any former Director of the Company.

Payments for Loss of Office Made During the Year

No payments for loss of office were made in the year to any Director of the Company.

Statement of Directors' Shareholding and Share Interests

The interests of the Directors and their immediate families in the Company's ordinary shares as at 1 July 2017 and 2 July 2016 were as follows.

	1 July 2017 Number	2 July 2016 Number
Executive Directors		
J G Duffy	2,269,238	2,197,599
S A Boyd	1,011,455	961,034
Non-Executive Directors		
P Baker	86,000	86,000
R P E Duignan	-	-
M J Millard	9,366	-
Z Morgan	70,028	-

The interests of the Directors and their immediate families in the Company's ordinary shares did not change between 1 July 2017 and the date these accounts were signed on 15 September 2017.

The interests of each Executive Director of the Company as at 1 July 2017 and 2 July 2016 in the Company's share schemes were as follows:

Executive Director	Number of options at 2 June 2016	Granted	Number of options at 1 July 2017
J G Duffy	1,137,898	-	1,137,898
J G Duffy	695,095	-	695,095
J G Duffy	-	515,464	515,464
S A Boyd	721,217	-	721,217
S A Boyd	505,051	-	505,051
S A Boyd	-	374,532	374,532
	3,059,261	889,996	3,949,257

Consideration by the Directors of Matters Relating to Directors' Remuneration

The Remuneration Committee comprises R Duignan (Chairman) and M Millard. The Company Secretary attends the meeting as secretary to the Committee. The Committee's responsibilities are:

- Maintaining the remuneration policy;
- Reviewing the remuneration packages of the Executive Directors;
- Monitoring the level and structure of the remuneration of Senior Management; and
- Production of the Annual Report on Directors' remuneration.

The Chief Executive Officer and Group Finance Director occasionally attend meetings and provide information and support as requested.

Advisors

During the financial year the Committee received advice from Deloitte LLP. The Committee is satisfied that the advice received is independent and objective. Deloitte is a founding member of the Remuneration Consultants Group and voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK.

Implementation of Directors' Remuneration Policy for the Financial Year Commencing 2 July 2017

Information on how the Company intends to implement the Directors' Remuneration Policy for the financial year commencing on 2 July 2017 is set out below.

Salaries/Fees

Salary increases for 2017-18 will be reviewed in September and details provided in the Remuneration Report next year.

The Non-Executive Director basic fees remain at £50,000 from 1 July 2017. The Chairman's fee was increased to £85,000 with effect from 1 July 2017.

Annual Bonus

Annual bonus for the Executive Directors will continue to be subject to the achievement of stretching EBITDA performance targets with payment made 50% in cash and 50% in shares. The Committee considers EBITDA to be the key short-term financial measure.

Long-term Incentives

Awards under the LTIP will be made following the announcement of our results and the Committee will discuss the performance conditions which will apply, although anticipate that this will continue to be absolute EPS targets and relative TSR against the FTSE Small Cap. The targets will be disclosed in the Remuneration Report next year.

Approval

This Report was approved by the Board on 15 September 2017 and signed on its behalf by:

Raymond Duignan
Chairman of the Remuneration Committee

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the Parent Company Financial Statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company Financial Statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable, relevant, reliable and prudent;
- For the Group Financial Statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- For the Parent Company Financial Statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- Assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

By Order of the Board
Stephen Boyd
Director

15 September 2017

Independent Auditor's Report to the Members of Finsbury Food Group Plc

1. Our opinion is unmodified

We have audited the Financial Statements of Finsbury Food Group Plc ("the Company") for the 52 week period ended 01 July 2017 which comprise the Consolidated Statement of Profit and Loss and Other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, Company Balance Sheet, Company Statement of Changes in Equity, and the related Notes, including the accounting policies in Notes 1 and 30.

In our opinion:
- The Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 01 July 2017 and of the Group's profit for the 52 week period then ended;
- The Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- The Parent Company Financial Statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- The Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2. Key Audit Matters: Our Assessment of Risks of Material Misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the Financial Statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows (unchanged from 2016):

	The risk	Our response
Revenue (£314.3m; 2016: £319.7m) *Refer to page 25 (Audit Committee Report), page 45 (accounting policy) and page 47 (financial disclosures).*	**Accounting application:** Revenue is significant to the Group due to its size and the presumed fraud risk that the entity may overstate revenue to meet targets and budgets. This fraud risk may occur through recognition of revenue in advance of the correct date or through the exercise of bias in the recognition of over-riders and rebates provided to customers or promotional expenditure.	Our procedures included: • **Control reperformance:** We tested the design, implementation and operating effectiveness of manual controls including those controls in place over the matching of sales invoices to sales orders and delivery notes. • **Test of detail:** For key customers at a number of the sites we reconciled revenue recognised through the year to cash receipts. • **Test of detail:** For smaller customers and other sites we agreed a sample of sales transactions to invoice and cash received. • **Test of detail:** We agreed a sample of revenue recorded around the year end to proof of delivery. For a sample of post-year end credit notes we assessed whether these indicated a reversal of in-year revenue. For a sample of debit notes and bank payments we evaluated whether these represented unrecognised deductions against in year revenue. • **Expectation vs outcome:** An expectation was developed for sales rebate expenses and accruals based on sales volumes and rebate contracted rates or promotional terms and this was compared to actual sales rebate expenses recognised. We challenged management's explanation of any significant differences arising.
Investments (£100.7m; 2016: £100.7m) *Refer to page 25 (Audit Committee Report), page 44 (accounting policy) and page 58 (financial disclosures).*	**Forecast-based valuation (Parent Company key audit matter):** The Parent Company holds significant investments in subsidiaries and whilst the valuation of these is not a significant risk it is an area of audit focus within the Parent as there is a risk that the value of the subsidiaries is less than the investment value.	Our procedures included: • **Tests of detail:** We compared the carrying amount of the investments with the net assets value of the respective subsidiary, being an approximation of their minimum recoverable amount, to identify whether the net asset values were in excess of the carrying amounts. • **Our sector experience:** Where the investment value was not supported by the net assets of the subsidiary we obtained the forecasts used by the Directors' in their assessment of the recoverability of their investments. We challenged the forecasts by agreeing the brought forward position to actual results and, based on our understanding of the Company and sector, assessed whether expected future conditions had been incorporated. • **Benchmarking assumptions:** We challenged the discount rate used in the forecasts by benchmarking this against similar companies.

3. Our Application of Materiality and an Overview of the Scope of our Audit

Materiality for the Group Financial Statements as a whole was set at £875,000 (2016: £950,000), determined with reference to a benchmark of Group profit before interest and tax of £17.6m, of which it represents 5% (2016: Group profit before tax normalised to exclude certain one-off costs including the write-off of goodwill of £4.3m and payments for settlement of share options of £2.8m, of which it represents 4.8%).

Materiality for the Parent Company Financial Statements as a whole was set at £656,000 (2016: £712,000), determined with reference to a benchmark of company total assets, of which it represents 0.5% (2016: 0.6%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £43,750 (2016: £47,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 8 (2016: 8) reporting components, which include the Parent Company, we subjected 7 (2016: 7) to audits for Group reporting purposes.

We conducted specified procedures over financial information (including enquiry) at a further one non financially significant component. The component for which we performed work other than audits for Group reporting purposes was not individually significant but was included in the scope of our Group reporting work in order to provide further coverage over the Group's results.

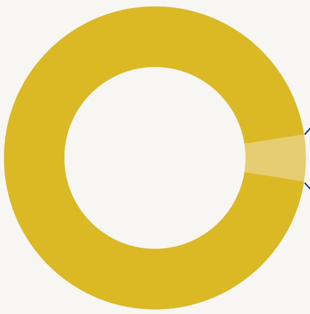
The components within the scope of our work accounted for the following percentages of the Group's results.

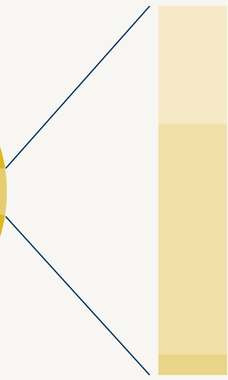
The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed on the previous page and the information to be reported back. The Group team approved the component materialities, which ranged from £20,000 to £450,000 (2016: £20,000 to £712,000), having regard to the mix of size and risk profile of the Group across the components. The work on 4 of the 8 components (2016: 4 of the 8 components) was performed by component auditors and the rest by the Group audit team.

The Group audit team visited 7 (2016: 7) component locations in the UK. At these visits, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

Adjusted Profit before Interest and Tax
£17.6m (2016: £19.9m)

Group Materiality
£875,000 (2016: £950,000)





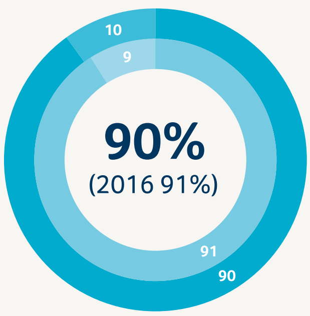
£875,000
Whole Financial Statements materiality (2016: £950,000)

£656,000
Range of materiality at 7 components (£20,000-450,000)
(2016: £20,000 to £712,000)

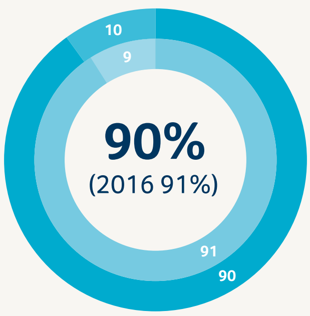
£43,750
Misstatements reported to the audit committee (2016: £47,000)

- Adjusted profit before interest and tax
- Group materiality

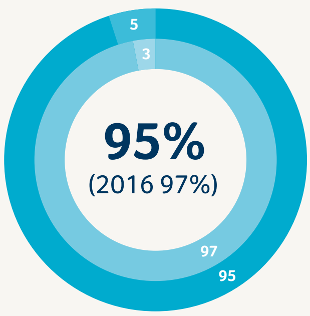
Group Revenue



Group Profit after Tax



Group Total Assets



- Full scope for Group audit purposes 2017
- Review (including enquiry) 2017
- Full scope for Group audit purposes 2016
- Review (including enquiry) 2016
- Residual components

Independent Auditor's Report to the Members of Finsbury Food Group Plc

4. We have nothing to Report on going Concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the Financial Statements. We have nothing to report in these respects.

5. We have nothing to Report on the other Information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the Financial Statements. Our opinion on the Financial Statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our Financial Statements audit work, the information therein is materially misstated or inconsistent with the Financial Statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report
Based solely on our work on the other information:

- We have not identified material misstatements in the Strategic Report and the Directors' Report;
- In our opinion the information given in those reports for the financial year is consistent with the Financial Statements; and
- In our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to Report on the other Matters on which we are required to Report by Exception

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

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

We have nothing to report in these respects.

7. Respective Responsibilities

Directors' Responsibilities
As explained more fully in their statement set out on page 33, the Directors are responsible for: the preparation of the Financial Statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. The Purpose of our Audit Work and to whom we owe our Responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Ian Brokenshire
(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
3 Assembly Square, Britannia Quay, Cardiff, CF10 4AX

15 September 2017

Financial Statements
Consolidated Statement of Profit and Loss and Other Comprehensive Income
for the 52 weeks ended 1 July 2017 and 53 weeks ended 2 July 2016

	Note	2017 £000	2016 £000
Revenue	2	**314,296**	319,680
Cost of sales		**(216,493)**	(217,092)
Gross profit		**97,803**	102,588
Administrative expenses	3	**(84,239)**	(89,797)
Results from operating activities		**13,564**	12,791
Finance income	7	**555**	221
Finance cost	7	**(1,081)**	(1,208)
Net finance cost		**(526)**	(987)
Profit before tax and share of losses of equity accounted investees		**13,038**	11,804
Share of losses of equity accounted investees		**(22)**	(14)
Profit before tax		**13,016**	11,790
Taxation	8	**(2,959)**	(3,286)
Profit for the financial year		**10,057**	8,504
Other comprehensive (expense)/income			
Items that will not be reclassified to profit and loss			
Remeasurement on defined benefit pension scheme	13	**(4,031)**	(2,595)
Movement in deferred taxation on pension scheme liability	20	**621**	390
Other comprehensive expense for the financial year, net of tax		**(3,410)**	(2,205)
Total comprehensive income for the financial year		**6,647**	6,299
Profit attributable to:			
Equity holders of the parent		**9,048**	7,791
Non-controlling interest		**1,009**	713
Profit for the financial year		**10,057**	8,504
Total comprehensive income attributable to:			
Equity holders of the parent		**5,638**	5,586
Non-controlling interest		**1,009**	713
Total comprehensive income for the financial year		**6,647**	6,299
Earnings per ordinary shares			
Basic	9	**7.1**	6.1
Diluted	9	**6.9**	6.0

The Notes on pages 42 to 71 form an integral part of these Financial Statements.

Consolidated Statement of Financial Position

at 1 July 2017 and 2 July 2016

	Note	2017 £000	2016 £000
Non-current assets			
Intangibles	10	**80,302**	77,596
Property, plant and equipment	11	**48,857**	50,501
Investments in equity accounted investees	12	**269**	211
Other financial assets	12	**28**	28
Deferred tax assets	20	**4,063**	3,492
		133,519	131,828
Current assets			
Inventories	14	**12,684**	12,577
Trade and other receivables	15	**50,018**	50,332
Cash and cash equivalents	16	**3,024**	3,024
Other financial assets – fair value of derivatives	12	**560**	-
		66,286	65,933
Total assets		**199,805**	197,761
Current liabilities			
Other interest-bearing loans and borrowings	17	**(14,586)**	(13,829)
Trade and other payables	19	**(60,461)**	(64,357)
Provisions		**(18)**	(247)
Other financial liabilities – fair value of derivatives	12	**(234)**	(157)
Current tax liabilities		**(1,650)**	(1,210)
		(76,949)	(79,800)
Non-current liabilities			
Other interest-bearing loans and borrowings	17	**(5,800)**	(8,740)
Provisions and other liabilities		**(221)**	(141)
Deferred tax liabilities	20	**(1,335)**	(1,547)
Pension fund liability	13	**(10,498)**	(6,463)
		(17,854)	(16,891)
Total liabilities		**(94,803)**	(96,691)
Net assets		**105,002**	101,070
Equity attributable to equity holders of the parent			
Share capital	23	**1,304**	1,304
Share premium account	22	**64,956**	64,956
Capital redemption reserve	22	**578**	578
Employee share reserve	22	**(3,585)**	(3,920)
Retained earnings	22	**39,862**	36,569
		103,115	99,487
Non-controlling interest		**1,887**	1,583
Total equity	22	**105,002**	101,070

These Financial Statements were approved by the Board of Directors on 15 September 2017 and were signed on its behalf by:

Stephen Boyd
Director

Registered Number 00204368

The Notes on pages 42 to 71 form an integral part of these Financial Statements.

Consolidated Statement of Changes in Equity

for the 52 weeks ended 1 July 2017 and 53 weeks ended 2 July 2016

	Note	Share capital £000	Share premium £000	Capital redemption reserve £000	Employee share reserve £000	Retained earnings £000	Non-controlling interest £000	Total equity £000
Balance at 28 June 2015		1,280	64,952	578	-	34,580	1,206	102,596
Profit for the financial year		-	-	-	-	7,791	713	8,504
Other comprehensive (expense)/income:								
Remeasurement on defined benefit pension	13	-	-	-	-	(2,595)	-	(2,595)
Deferred tax movement on pension scheme remeasurement	20	-	-	-	-	390	-	390
Total other comprehensive expense		**-**	**-**	**-**	**-**	**(2,205)**	**-**	**(2,205)**
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**5,586**	**713**	**6,299**
Transactions with owners, recorded directly in equity:								
Own shares acquired	23	-	-	-	(3,920)	-	-	(3,920)
Shares issued during the year	23	24	4	-	-	(23)	-	5
Impact of share based payments	23	-	-	-	-	306	-	306
Deferred tax on share options		-	-	-	-	(575)	-	(575)
Dividend paid	24	-	-	-	-	(3,305)	(336)	(3,641)
Balance at 2 July 2016		**1,304**	**64,956**	**578**	**(3,920)**	**36,569**	**1,583**	**101,070**
Balance at 2 July 2016		1,304	64,956	578	(3,920)	36,569	1,583	101,070
Profit for the financial year		-	-	-	-	9,048	1,009	10,057
Other comprehensive (expense)/income:								
Remeasurement on defined benefit pension	13	-	-	-	-	(4,031)	-	(4,031)
Deferred tax movement on pension scheme remeasurement	20	-	-	-	-	621	-	621
Total other comprehensive expense		**-**	**-**	**-**	**-**	**(3,410)**	**-**	**(3,410)**
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**5,638**	**1,009**	**6,647**
Transactions with owners, recorded directly in equity:								
Own shares acquired	23	-	-	-	335	(158)	-	177
Shares issued during the year	23	-	-	-	-	-	-	-
Impact of share based payments	23	-	-	-	-	1,240	-	1,240
Deferred tax on share options		-	-	-	-	47	-	47
Foreign exchange translation differences		-	-	-	-	171	-	171
Dividend paid	24	-	-	-	-	(3,645)	(705)	(4,350)
Balance at 1 July 2017		**1,304**	**64,956**	**578**	**(3,585)**	**39,862**	**1,887**	**105,002**

The Notes on pages 42 to 71 form an integral part of these Financial Statements.

Consolidated Cash Flow Statement

for the 52 weeks ended 1 July 2017 and 53 weeks ended 2 July 2016

	Note	2017 £000	2016 £000
Cash flows from operating activities			
Profit for the financial year		**10,057**	8,504
Adjustments for:			
Taxation	8	**2,959**	3,286
Net finance costs	7	**526**	987
Depreciation	11	**6,948**	7,090
Amortisation of intangibles	10	**537**	539
Non-cash impairment of assets and goodwill	10	**4,000**	4,290
Share of losses of equity accounted investees after tax	12	**22**	14
Contributions by employer to pension scheme	13	**(200)**	(117)
Change in fair value of foreign exchange contracts	12	**71**	134
Operating profit before changes in working capital		**24,920**	24,727
Changes in working capital:			
Decrease/(increase) in inventories		**(39)**	(1,091)
Decrease/(increase) in trade and other receivables		**153**	(2,253)
(Decrease)/increase in trade and other payables		**(2,566)**	1,711
Cash generated from operations		**22,468**	23,094
Interest paid		**(892)**	(1,180)
Tax paid		**(2,650)**	(1,603)
Net cash from operating activities		**18,926**	20,311
Cash flows from investing activities			
Purchase of property, plant and equipment		**(12,542)**	(12,141)
Purchase of companies/investments		**(80)**	-
Deferred consideration paid		**-**	(50)
Net cash used in investing activities		**(12,622)**	(12,191)
Cash flows from financing activities			
Net drawdown of invoice discounting	18	**822**	7,427
Repayment of revolving credit	18	**-**	(2,000)
Repayment of mortgage and bank loans	18	**(2,937)**	(3,672)
Repayment of asset finance liabilities	18	**(133)**	(284)
Issue of ordinary share capital		**-**	5
Options exercised/(purchase) of shares by employee benefit trust		**177**	(2,835)
Dividend paid to non-controlling interest	24	**(705)**	(336)
Dividend paid to shareholders	35	**(3,645)**	(3,305)
Net cash from financing activities		**(6,421)**	(5,000)
Net (decrease)/increase in cash and cash equivalents		**(117)**	3,120
Opening cash and cash equivalents		**3,024**	61
Effect of exchange rate fluctuations on cash held		**117**	(157)
Cash and cash equivalents at end of period	16	**3,024**	3,024

The Notes on pages 42 to 71 form an integral part of these Financial Statements.

Notes to the Consolidated Financial Statements

(forming part of the Financial Statements)

Presentation of Financial Statements

Basis of Preparation

These accounts cover the 52 week period ended 1 July 2017 (prior financial year is the 53 week period ended 2 July 2016). 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 the UK.

The Group Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The Financial Statements for the Company have been prepared in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"), these are presented on pages 72 to 81.

It should be noted that current liabilities exceed current assets. 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 October 2019. Committed banking facilities are £50.9m, of which £17.5m were drawn at the year end. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, including the possible effect of the UK's decision to withdraw from the EU, show that the Group will be able to operate comfortably within its current bank facilities. The Group has a relatively conservative level of debt to earnings. As a result, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

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

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

Critical Accounting Estimates and Judgements

The Group is required to make estimates and assumptions concerning the future. These estimates and judgements 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. Accounting estimates and judgements have been required for the production of these Financial Statements. The following are those that are deemed to require the most complex judgements about matters that have the most significant effect on the amounts recognised in the Financial Statements.

- The carrying value of goodwill and intangible assets is significant. The determination of the estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. Impairment reviews in respect of intangibles are performed where there is indication of impairment. Impairment of goodwill is carried out annually and can significantly impact the Group's Consolidated Statement of Profit and Loss for the year. The Group estimates the recoverable amounts based on historical experience of margin, volumes and cost structure and expectations of future events. The discount rate takes account of the current market conditions and is applied as a pre-tax discount factor to obtain a current value. Refer to Note 10 for further details.
- The Group has one defined benefit pension scheme. The net deficit or surplus 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 judgements. 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 assumptions applied are based on advice provided by the scheme's actuary in accordance with IAS 19 (Revised), further detail can be found in Note 13.
- 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 3 years.
- The Grain D'Or business unit has been historically loss making and despite the implementation of a range of initiatives to improve the business including strict cost control and new working practices the site remained loss making in the year to 1 July 2017. The Company now proposes to close the site. A formal consultation with representatives of the workforce commenced on 1 September 2017. The consultation is expected to conclude mid October 2017. Until this consultation period concludes uncertainty remains over the use of the assets. In light of this a decision has been taken to impair the assets used in the business by £4.0 million in the year to 1 July 2017. A degree of judgement has been exercised in calculating the level of impairment based on information available at the time of preparing these Financial Statements.

1. Significant Accounting Policies

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

Basis of Consolidation

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

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

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 effected from the date of acquisition.

Foreign Currency

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

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

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

Derivative Financial Instruments

The Group has derivative financial instruments in respect of interest rate swaps and foreign exchange hedges. The Group does not hold derivative financial instruments for trading purposes. The existing interest rate swaps and foreign exchange hedges used by the Group while they function as hedges, do not meet the criteria for hedge accounting set out by IAS 39, 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 Profit and Loss as finance income or cost. Changes in the market value of foreign exchange hedges have been recognised through the Consolidated Statement of Profit and Loss 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.

1. Significant Accounting Policies (continued)

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 Profit and Loss. 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.

Leased Assets
Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets acquired by finance lease and hire purchase are depreciated over the lease term or their useful lives.

Obligations under finance leases are included in liabilities net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the Consolidated Statement of Profit and Loss as finance expense so as to produce a constant periodic rate of charge on the net obligations outstanding in each period.

Other leases are operating leases and the leased assets are not recognised on the Group's Consolidated Statement of Financial Position.

Operating Lease Payments
Payments made under operating leases are recognised in the Consolidated Statement of Profit and Loss on a straight-line basis over the term of the lease.

Finance Lease Payments
Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Equity Accounted Investees
Equity Accounted Investees (Associates) are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Application of the Equity Method to Associates and Joint Ventures
Equity Accounted Investees are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated Financial Statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

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.

1. Significant Accounting Policies (continued)

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 Profit and Loss.

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

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

Employee Benefits
Defined Benefit Plans
Memory Lane Cakes Ltd operates a defined benefit pension scheme and the pension costs are charged to the Consolidated Statement of Profit and Loss and Other 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 Profit and Loss. The remeasurements are recognised in full in Other Comprehensive Income.

Defined Contribution Plans
The costs of contributing to defined contribution and personal pension schemes are charged to the Consolidated Statement of Profit and Loss 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 represents the amounts derived from the sale of bakery products. Revenue is the invoiced 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 is recognised upon despatch of goods. The nature and timing of promotions and overriders is typically known, accruals are established at the time of sale based on information available and management's expectations of the amounts necessary to meet the claims of customers.

Segmental Reporting
An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All segments' operating results are reviewed regularly by the Group's Board of Directors. The Group's Chief Operating Decision Maker is considered to be the Board.

Licence Fees
Payments made for licence fee charges are recognised under cost of sales in the Consolidated Statement of Profit and Loss in the period to which they relate. Any charges relating to future years are deferred and recognised in the Consolidated Statement of Profit and Loss 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 finance leases recognised using the effective interest method, unwinding of the discount on provisions and deferred consideration, interest on the net defined benefit pension plan position and adverse changes in the fair value of interest rate swaps.

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

1. Significant Accounting Policies (continued)

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Consolidated Statement of Profit and Loss 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 Profit and Loss as incurred.

2. Revenue and Segment Information

Operating segments are identified on the basis of internal reporting and decision making. The Group's Chief Operating Decision Maker is considered 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 uses adjusted operating profit, reviewed on a regular basis, as the key measure of the segments' performance. Operating profit in this instance is defined as profit before the following:

- Net financing expense
- Significant non-recurring items
- Pension charges or credits in relation to the net pension position
- Revaluation of interest rate swaps and forward foreign currency contracts

The UK bakery segment manufactures and sells bakery products to the UK's multiple grocers and foodservice sectors. This segment primarily comprises the operations of Memory Lane Cakes Ltd, Lightbody Group Ltd, Campbells Cake Company Ltd, Johnstone's Food Service Ltd, Fletchers Bakeries Ltd and Nicholas & Harris Ltd. These subsidiaries are aggregated into a single segment as they share similar economic characteristics. The characteristics considered are:

- The nature of the products – products are similar in nature and are classed as manufactured bakery products
- The production process – the production processes have the same or similar characteristics
- The economic characteristics – the average gross margins are expected to be similar

Costs of Group operations plus a 10% premium have been allocated across the segments on the basis of their operating profit. The premium has been charged to reflect the synergies achieved from obtaining resources centrally giving benefits across the operating segments.

A purchasing premium of 2% is charged from Group operations, and is calculated on materials and packaging spend at segmental level. This charge is based on the rationale that Group operations, through its Group buyers, optimises the Group's procurement spend through leveraging its purchasing power.

This has resulted in a loss from continuing operations of £0.2m (2016: £0.3m loss) being presented within the Group Operations segment.

The Group's finance income and expenses cannot be meaningfully allocated to the individual operating segments.

Notes to the Consolidated Financial Statements

2. Revenue and Segment Information (continued)

52 week period ended 1 July 2017	**UK bakery £000**	**Overseas £000**	**Group operations £000**	**Total Group £000**
External revenue continuing	**281,580**	**32,716**	**-**	**314,296**
Adjusted operating profit	**15,369**	**2,219**	**(153)**	**17,435**
Fair value foreign exchange contracts				(71)
Defined benefit pension scheme				200
Significant non-recurring items				(4,000)
Results from operating activities				**13,564**
Finance income				555
Finance cost				(1,081)
Net finance cost				**(526)**
Share of losses of equity accounted investees after tax				(22)
Profit before taxation				**13,016**
Taxation				(2,959)
Profit for the financial year				**10,057**
At 1 July 2017				
Segment assets	**188,628**	**6,543**	**712**	**195,883**
Unallocated assets				**3,922**
Consolidated total assets				**199,805**
Segment liabilities	**(62,483)**	**(5,041)**	**(6,564)**	**(74,088)**
Unallocated liabilities				**(20,715)**
Consolidated total liabilities				**(94,803)**
Other segment information				
Capital expenditure	12,430	112	-	12,542
Depreciation included in segment profit	6,906	42	-	6,948
Amortisation	537	-	-	537
Impairment of assets	4,000	-	-	4,000
Inter-segmental sale/(purchases)	8,710	(8,710)	-	-

Analysis of unallocated assets and liabilities:

	Assets £000		**Liabilities £000**
Investments	297	Loans and borrowings	(20,386)
Financial instruments	560	Financial instruments	(234)
Cash and cash equivalents	3,024	Cash and cash equivalents	-
Taxation balances	41	Taxation balances	(95)
Unallocated assets	3,922	Unallocated liabilities	(20,715)

With regard to revenue, five customers with sales of £64m, £39m, £31m, £22m and £22m account for 57% of revenue, which is attributable to the UK bakery and Overseas segments above.

Impairment relates to the assets held in Grain D'Or, which fall under the UK bakery segment.

2. Revenue and Segment Information (continued)

53 week period ended 2 July 2016	UK bakery £000	Overseas £000	Group operations £000	Total Group £000
External revenue continuing	**291,196**	**28,484**	-	**319,680**
Adjusted operating profit	**15,887**	**1,511**	**(300)**	**17,098**
Fair value foreign exchange contracts				(134)
Defined benefit pension scheme				117
Significant non-recurring items				(4,290)
Results from operating activities				**12,791**
Finance income				221
Finance cost				(1,208)
Net finance cost				**(987)**
Share of losses of equity accounted investees after tax				(14)
Profit before taxation				**11,790**
Taxation				(3,286)
Profit for the financial year				**8,504**
At 2 July 2016				
Segment assets	**187,827**	**6,337**	**292**	**194,456**
Unallocated assets				**3,305**
Consolidated total assets				**197,761**
Segment liabilities	**(61,557)**	**(5,355)**	**(7,052)**	**(73,964)**
Unallocated liabilities				**(22,727)**
Consolidated total liabilities				**(96,691)**
Other segment information				
Capital expenditure	12,115	26	-	12,141
Depreciation included in segment profit	7,063	27	-	7,090
Amortisation	539	-	-	539
Impairment of goodwill	4,290	-	-	4,290
Inter-segmental sale/(purchases)	8,488	(8,488)	-	-

Analysis of unallocated assets and liabilities:

	Assets £000		Liabilities £000
Investments	253	Loans and borrowings	(22,570)
Financial instruments	-	Financial instruments	(157)
Cash and cash equivalents	3,024	Cash and cash equivalents	-
Taxation balances	28	Taxation balances	-
Unallocated assets	3,305	Unallocated liabilities	(22,727)

With regard to revenue, five customers with sales of £66m, £39m, £29m, £24m and £23m account for 57% of revenue, which is attributable to the UK bakery and Overseas segments above.

Impairment loss relates to the Anthony Alan Foods Ltd acquisition in 2007 which falls under the UK bakery segment.

2. Revenue and Segment Information (continued)

An analysis by geographical segment is shown below:

Geographical split of revenue by destination	2017 £000	2016 £000
Continuing:		
United Kingdom	**276,177**	286,562
Europe	**38,119**	33,118
Rest of World	-	-
Total continuing	**314,296**	319,680

Capital expenditure on segment assets is detailed in Note 2.

Geographical split by country of origin	United Kingdom £000	Europe £000	Total £000
2017			
Continuing revenue	281,580	32,716	314,296
Operating profit	15,216	2,219	17,435
Total assets	193,262	6,543	199,805
Total liabilities	(89,762)	(5,041)	(94,803)
Net assets	103,500	1,502	105,002

	United Kingdom £000	Europe £000	Total £000
2016			
Continuing revenue	291,196	28,484	319,680
Operating profit	15,587	1,511	17,098
Total assets	191,424	6,337	197,761
Total liabilities	(91,336)	(5,355)	(96,691)
Net assets	100,088	982	101,070

The net assets shown under Europe comprises Lightbody Stretz Ltd, being the 50% owned Parent Company of Lightbody Europe SAS, the French based selling and distribution business.

3. Expenses and Auditor's Remuneration

Included in profit are the following:

	2017 £000	2016 £000
Amortisation of intangibles	**537**	539
Depreciation of owned tangible assets	**6,715**	6,770
Depreciation on assets under finance leases and hire purchase contracts	**233**	320
Impairment of assets and goodwill (Note 4)	**4,000**	4,290
Loss on foreign exchange	**1,360**	326
Hire of plant and machinery – operating leases	**1,006**	810
Hire of other assets – operating leases	**1,833**	1,877
Movement on fair value of foreign exchange contracts	**71**	134
Research and development	**2,328**	2,287
Share option charges	**1,240**	739

Amortisation of intangibles for the year was £537,000 (2016: £539,000) relating to the Fletchers acquisition in October 2014.

Auditor's remuneration:

	2017 £000	2016 £000
Audit of these Financial Statements	**50**	47
Amounts receivable by the auditor and its associates in respect of:		
Audit of the Financial Statements of subsidiaries of the Company	**123**	122
Taxation compliance services	**35**	22
Other tax advisory	**7**	-
Other services	**100**	104

The auditor's remuneration is in respect of KPMG LLP. Fees for other services relates to pension advisory services and services relating to information technology.

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.

The Grain D'Or business has been historically loss making and despite the implementation of a range of initiatives to improve the business including strict cost control and new working practices the site remained loss making in the year to 1 July 2017. The Company now proposes to close the site. A formal consultation with representatives of the workforce commenced on 1 September 2017. The consultation is expected to conclude mid October 2017. Until this consultation period concludes uncertainty remains over the use of the assets. In light of this, a decision has been taken to impair the assets used in the business by £4.0 million in the year to 1 July 2017.

A charge of £4.3 million in the previous year relates to impairment of goodwill acquired in 2007. This is included in administrative expenses in the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

Notes to the Consolidated Financial Statements

5. Staff Numbers and Costs

The 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	
	2017	2016
Production	**2,617**	2,621
Selling and distribution	**243**	229
Administration, technical, new product development	**302**	200
	3,162	3,050

The aggregate payroll costs of these persons were as follows:

	2017 £000	2016 £000
Wages and salaries	**72,127**	71,131
Share option charges	**1,240**	739
Social security costs	**6,427**	6,478
Charge in respect of defined contribution pension plans	**1,257**	1,187
	81,051	79,535

6. Remuneration of Directors

	2017 £000	2016 £000
Fees	**300**	257
Executive salaries	**626**	607
Bonuses and benefits	**583**	544
	1,509	1,408

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid Director was £693,000 (2016: £687,000), there were no Company pension contributions made to a defined contribution scheme during the current or prior year. Bonuses include cash bonus of £241,000 (2016: £245,000) and shares issued with a total cost of £91,000 (2016: £88,000). There were no 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 1 July 2017 £000	Year ended 2 July 2016 £000
P Baker	75	-	-	-	**75**	75
E J Beale	23	-	-	-	**23**	45
S A Boyd – paid	-	253	12	177	**442**	408
S A Boyd – shares	-	-	-	64	**64**	56
J G Duffy – paid	-	349	12	251	**612**	599
J G Duffy – shares	-	-	-	91	**91**	88
R P E Duignan	60	-	-	-	**60**	50
M J Millard	53	-	-	-	**53**	17
P J Monk	36	-	-	-	**36**	70
Z Morgan	53	-	-	-	**53**	-
	300	602	24	583	**1,509**	1,408

Shares comprise 71,639 shares issued to J G Duffy and 50,421 shares issued to S A Boyd. During the year awards over 889,996 shares under the long-term incentive plan (LTIP) were granted to Directors in the form of nil cost options (2016: 1,200,146). The vesting of the awards is conditional upon performance conditions over a three year period commencing 3 July 2016 and are subject to a further two year holding period.

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

	Number of options at 1 July 2017	Number of options at 2 July 2016	Exercise price	Earliest exercise date	Exercise expiry date
S A Boyd	**721,217**	721,217	Nil	01/07/2019	26/06/2025
S A Boyd	**505,051**	505,051	Nil	01/07/2020	04/12/2025
S A Boyd	**374,532**	-	Nil	30/06/2021	29/09/2026
J G Duffy	**1,137,898**	1,137,898	Nil	01/07/2019	26/06/2025
J G Duffy	**695,095**	695,095	Nil	01/07/2020	04/12/2025
J G Duffy	**515,464**	-	Nil	30/06/2021	29/09/2026
	3,949,257	3,059,261			

The mid-market price of the ordinary shares on 1 July 2017 was 116p (2016: 111.0p) and the range during the 52 week period to 1 July 2017 was 103p to 137p (2016: 80p to 124p).

7. Finance Income and Cost

Recognised in the Consolidated Statement of Profit and Loss

	2017 £000	2016 £000
Finance income		
Change in fair value of interest rate swaps	**555**	219
Bank interest receivable	**-**	2
Total finance income	**555**	221
Finance cost		
Interest on net pension position	**(204)**	(148)
Bank interest payable	**(752)**	(787)
Interest on interest rate swap agreements	**(125)**	(273)
Total finance cost	**(1,081)**	(1,208)

8. Taxation

Recognised in the Consolidated Statement of Profit and Loss

	2017 £000	2016 £000
Current tax		
Current year	**3,270**	2,745
Adjustments for prior years	**(196)**	82
Total current tax	**3,074**	2,827
Deferred tax		
Origination and reversal of temporary differences	**(222)**	928
Retirement benefit deferred tax charge	**1**	(6)
Adjustments for prior years	**106**	(463)
Total deferred tax	**(115)**	459
Total tax expense	**2,959**	3,286

Reconciliation of Effective Tax Rate

The weighted average hybrid rate of UK and French tax is 22.2% (2016: 21.8%). The tax assessed for the period is lower (2016: lower) than the hybrid rate of UK and French tax. The UK corporation tax rate for the period is 20% reducing to 19% from 1 April 2017 (2016: 20%). The differences are explained below:

	2017 £000	2016 £000
Profit before taxation before losses from equity accounted investees	**13,038**	11,804
Tax using the UK corporation tax rate of 19.76% (2016: 20.00%)	**2,577**	2,361
Overseas profits charged at different taxation rate	**344**	207
Non-deductible expenses	**160**	99
Temporary differences	**-**	7
Restatement of opening net deferred tax due to rate change and differences in rates	**68**	275
R&D uplift current year	**(100)**	(140)
Adjustments to tax charge in respect of prior periods	**(90)**	(381)
Tax expense (excluding prior year disallowable impairment)	**2,959**	2,428
Tax rate for the period (excluding prior year disallowable impairment)	**21.4%**	20.6%
Disallowable intangible impairment	**-**	858
Total tax expense	**2,959**	3,286

8. Taxation (continued)

The UK corporation tax rate reductions from 20% to 19% from 1 April 2017 and 18% from 1 April 2020 were substantively enacted on 26 October 2015. An additional reduction to 17% from 1 April 2020 was substantively enacted on 6 September 2016. The deferred tax assets and liabilities at 1 July 2017 have been calculated based on these rates.

The adjustment of £90,000 for prior year includes, ineligible capital spends offset partially by additional tax relief on qualifying R&D expenditure for prior periods.

The Company has an unrecognised deferred tax asset of £162,605 (2016: £172,170) 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 126,979,000 (2016: 126,938,000).

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 1 July 2017, the diluted weighted average number of shares in issue was 130,992,000 (2016: 129,206,000).

An adjusted earnings per share and an adjusted diluted earnings per share have also been calculated for a 52 week period as in the opinion of the Board this will allow shareholders to gain a clearer understanding of the trading performance of the Group and year on year comparisons. These adjusted earnings per share exclude:

- Reorganisation and other significant non-recurring items
- IAS 39 '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
- Amortisation of intangible assets

	52 weeks to 1 Jul 2017 £000	53 weeks to 2 Jul 2016 £000	52 weeks to 2 Jul 2016 £000
Profit			
Profit attributable to equity holders of Company (basic)	9,048	7,791	7,528
Significant non-recurring and other items as per Strategic Report	2,901	4,250	4,250
Intangible amortisation net of deferred tax	446	442	442
Numerator for adjusted earnings per share calculation (adjusted basic)	12,395	12,483	12,220

	Basic '000	Diluted '000	Basic '000	Diluted '000	Basic '000	Diluted '000
Shares						
Weighted average number of ordinary shares in issue during the period	126,979	126,979	126,938	126,938	126,938	126,938
Dilutive effect of share options	–	4,013	–	2,268	–	2,268
	126,979	130,992	126,938	129,206	126,938	129,206

	Basic Pence	Diluted Pence	Basic Pence	Diluted Pence	Basic Pence	Diluted Pence
Earnings per share (pence per share)						
Basic and diluted	7.1	6.9	6.1	6.0	5.9	5.8
Adjusted basic and adjusted diluted	9.8	9.5	9.8	9.7	9.6	9.5

Significant non-recurring and other items are tabled in the Strategic Report on page 17 and comprise: significant non recurring items (£3,320,000). Defined benefit pension scheme (£3,000) and fair value of interest rate swaps and foreign exchange contracts £422,000.

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 2015	71,704	-	3,683	5,909	81,296
Adjustment in respect of prior year acquisition	1,754	-	-	-	1,754
Additions	-	600	-	-	600
Cost at 2 July 2016	73,458	600	3,683	5,909	83,650
Transfer from tangible assets	-	548	-	-	548
Additions	-	2,695	-	-	2,695
Cost at 1 July 2017	**73,458**	**3,843**	**3,683**	**5,909**	**86,893**
Amortisation at 27 June 2015	-	-	(929)	(296)	(1,225)
Charge for the year 2 July 2016	(4,290)	-	(144)	(395)	(4,829)
Amortisation/impairment at 2 July 2016	(4,290)	-	(1,073)	(691)	(6,054)
Charge for the year 1 July 2017	-	-	(143)	(394)	(537)
Amortisation/impairment at 1 July 2017	**(4,290)**	**-**	**(1,216)**	**(1,085)**	**(6,591)**
Net book value at 27 June 2015	71,704	-	2,754	5,613	80,071
Net book value at 2 July 2016	69,168	600	2,610	5,218	77,596
Net book value at 1 July 2017	**69,168**	**3,843**	**2,467**	**4,824**	**80,302**

The brand and customer relationships recognised were purchased as part of 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 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 Income Statement. There is no amortisation on business systems during the year as the systems are yet to be brought into use.

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. A non-cash impairment of goodwill arising from an acquisition in 2007 was made during the previous 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 rate 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.

The Group prepares cash flow forecasts covering a five year period based on the detailed financial forecasts approved by management for the next three years with estimated growth and inflation of 3% (2016: 3%) and 3% (2016: 3%) respectively thereafter. The cashflows beyond this forecast are extrapolated to perpetuity using a nil growth rate on a prudent basis, to reflect the uncertainties of forecasting further than five years. Changes in revenue and direct costs are based on past experience and expectations of future changes in the market.

The revenue growth rate 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.

A pre-tax discount rate of 10% (2016: 10%) has been used in these calculations. 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 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.

10. Intangibles (continued)

A non-cash impairment of the goodwill arising from the acquisition of Anthony Alan Foods Ltd in 2007 was made during the previous year. The impairment reflects the challenging market and changing dynamics of the 'healthier' grocery market. The related goodwill has been fully impaired and reflected in both the Lightbody of Hamilton and Memory Lane Cakes cash generating units accordingly. The impairment is shown as a significant non-recurring item within administrative expenses.

Sensitivity analyses have been carried out by the Directors on the carrying value of all remaining goodwill using discount rates ranging between 3.5% and 15.0% which would not result in an impairment of any cash generating units. Management believe any increase in discount rates above 15% to be remote.

The carrying amount of goodwill has been allocated to cash generating units or groups of cash generating units as follows:

	2017 £000	2016 £000
Nicholas & Harris	**2,980**	2,980
Lightbody of Hamilton	**45,698**	45,698
Memory Lane Cakes	**-**	-
Fletchers Bakery	**20,118**	20,118
Johnstone's Food Service	**372**	372
	69,168	69,168

11. 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 2015	15,260	73,143	2,853	1,028	92,284
Exchange adjustments	-	-	39	-	39
Additions	76	7,162	756	3,601	11,595
Transfers	-	1,028	-	(1,028)	-
Disposals	-	(265)	(49)	-	(314)
Balance at 2 July 2016	**15,336**	**81,068**	**3,599**	**3,601**	**103,604**
Balance at 2 July 2016	15,336	81,068	3,599	3,601	103,604
Exchange adjustments	-	-	7	-	7
Transfers to intangible assets	-	-	-	(548)	(548)
Additions	17	6,837	611	2,382	9,847
Transfers	(29)	798	570	(1,339)	-
Disposals	-	(4,364)	(43)	-	(4,407)
Balance at 1 July 2017	**15,324**	**84,339**	**4,744**	**4,096**	**108,503**
Depreciation and impairment					
Balance at 28 June 2015	(4,742)	(39,557)	(1,947)	-	(46,246)
Exchange adjustments	-	-	(27)	-	(27)
Depreciation charge for the financial period	(422)	(6,289)	(379)	-	(7,090)
Disposals	-	211	49	-	260
Balance at 2 July 2016	**(5,164)**	**(45,635)**	**(2,304)**	**-**	**(53,103)**
Balance at 2 July 2016	(5,164)	(45,635)	(2,304)	-	(53,103)
Impairment	-	(4,000)	-	-	(4,000)
Depreciation charge for the financial period	(390)	(6,057)	(501)	-	(6,948)
Transfers	28	223	(251)	-	-
Disposals	-	4,360	45	-	4,405
Balance at 1 July 2017	**(5,526)**	**(51,109)**	**(3,011)**	**-**	**(59,646)**
Net book value					
At 27 June 2015	10,518	33,586	906	1,028	46,038
At 2 July 2016	10,172	35,433	1,295	3,601	50,501
At 1 July 2017	**9,798**	**33,230**	**1,733**	**4,096**	**48,857**

Leased Plant and Equipment

The net book value of assets held under finance lease or hire purchase contracts included above is as follows:

	2017 £000	2016 £000
Plant and equipment	**302**	1,232

Security

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

The lease obligations are secured on leased equipment (see Note 17).

12. Other Financial Assets and Liabilities

	2017 £000	2016 £000
Non-current		
Investments in equity accounted investees		
At the beginning of the financial year	**211**	225
Additions	**80**	-
Share of losses	**(22)**	(14)
At the end of the financial year	**269**	211
Other financial assets	**28**	28
Current assets – derivatives		
Fair value of interest rate swaps	**415**	-
Fair value of foreign exchange contracts	**145**	-
Total of derivatives with positive fair values	**560**	-
Current liabilities – derivatives		
Fair value of interest rate swaps	**-**	(140)
Fair value of foreign exchange contracts	**(234)**	(17)
Total of derivatives with negative fair values	**(234)**	(157)

Investment in Associates

During the year the Group purchased 6.12% of the ordinary share capital of Dr Zak's Ltd for a consideration of £80,000, taking the Group's investment to 31.12%. The cost of investment is deemed to be the fair value. The Group's share of profit or loss of equity accounted Associates after tax is presented in a single line in the Consolidated Statement of Profit and Loss. This is a loss of £22,000 for the current year (2016: £14,000 loss).

Interest Rate Swaps at Fair Value

The Group has a forward dated interest rate swap arrangement to hedge its risks associated with interest rate fluctuations:

£20.0 million for five years from 3 July 2017 (fixed) at 0.455%

Two swaps matured during the year:

£3.0 million for four years from 22 May 2013 (fixed) at 1.7% matured 22 May 2017
£6.0 million for three years from 2 June 2014 (fixed) at 1.9% matured 2 June 2017

There was no coverage in place at the year end, (2016: coverage of £9.0 million, equivalent to 46% of total net bank debt at a weighted average rate of 1.8%).

A credit of £555,000 (2016: credit £219,000) is shown in finance income for the periods reflecting changes in the fair values of interest rate swaps.

Forward Foreign Exchange Contracts at Fair Value

The Group has entered into a number of forward foreign exchange contracts to minimise the impact of fluctuations in exchange rates. A charge of £71,000 (2016: charge £134,000) is shown in administrative expenses for the periods reflecting changes in their fair value.

13. 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 £1,257,000 (2016: £1,187,000).

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 (2016: nil), 196 deferred pensioner members (2016: 206) and 217 pensioner members (2016: 215).

The scheme was closed to future accrual on 31 May 2010. The assets of the scheme are held separately from those of the Company. The amounts in the Financial Statements for the 52 weeks ended 1 July 2017 relating to defined benefit pension are based on a full actuarial valuation dated 31 December 2015, which was updated at the end of the scheme's financial year 2016.

A £200,000 contribution was paid during the financial year by Memory Lane Cakes Limited (2016: £117,000). The Group's contribution has been agreed based on the outcome of the full actuarial valuation dated 31 December 2015. The valuation of the scheme on an equity/bond basis and projected unit method, showed that there was a deficit at 31 December 2015 of £2,505,000 equivalent to an 11% deficit of liabilities over assets. The valuation was conducted by a qualified independent actuary. This deficit is payable at a rate of £200,000 per annum until September 2020, and £100,000 thereafter until September 2023. The next full valuation is due by 31 December 2018, which will challenge the appropriateness of this recovery plan taking into consideration the deficit recovery contributions and actual returns realised on the pension scheme assets.

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

Approximately 90% of the assets are held in two diversified growth funds which target 6 month LIBOR +5% and CPI +5% respectively. The scheme's assets are expected to provide real returns over the long-term. The expected return on cash balances held is based on the current Bank of England base rate rather than long-term deposit rates as cash is held to cover short-term requirements.

The full actuarial valuation differs from the financial year end valuation deficit of £10,498,000 (2016: £6,463,000). 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.

	2017 £000	2016 £000
Fair value of plan assets	**19,985**	19,287
Present value of defined benefit obligations	**(30,483)**	(25,750)
Deficit recognised	**(10,498)**	(6,463)

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

	2017 £000	2016 £000
Equities/target return fund	**17,872**	17,291
Property	**1,989**	1,868
Cash	**124**	128
Fair value of plan assets	**19,985**	19,287
Actual return on plan assets	**1,319**	(661)

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

13. Pension Schemes (continued)

	2017 £000	2016 £000
Movements in present value of defined benefit obligation		
At beginning of financial year	**(25,750)**	(24,424)
Interest on plan obligations	**(811)**	(938)
Benefits paid	**821**	756
Remeasurement – experience gain on liabilities	**-**	236
Remeasurement – loss from changes to financial assumptions	**(4,743)**	(1,786)
Remeasurement – gain from changes to demographic assumptions	**-**	406
At end of financial year	**(30,483)**	(25,750)
Movements in fair value of plan assets		
At beginning of financial year	**19,287**	20,587
Interest on plan assets	**607**	790
Return on plan assets less interest	**712**	(1,451)
Benefits paid	**(821)**	(756)
Contributions by employer	**200**	117
At end of financial year	**19,985**	19,287

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.

Expense Recognised in the Consolidated Statement of Profit and Loss

Interest on plan assets/finance income	**607**	790
Interest on plan obligations/finance expense	**(811)**	(938)
Total (expense)/income	**(204)**	(148)

Remeasurement Gains and Losses Recognised directly in Equity in the Statement of Comprehensive Income and Expense since 1 July 2006, the transition date to Adopted IFRS

Cumulative amount at beginning of financial year	**(8,600)**	(6,005)
Recognised in the financial year – return on plan assets less interest	**712**	(1,451)
Recognised in the financial year – experience losses/(gains) on liabilities	**-**	236
Recognised in the financial year – loss from changes to financial assumptions	**(4,743)**	(1,786)
Recognised in the financial year – gains/(losses) from changes to demographic assumptions	**-**	406
Cumulative amount at end of financial year	**(12,631)**	(8,600)

Principal Long-term Actuarial Assumptions at the Year End

	2017 %	2016 %
CPI price inflation assumption	**2.4**	2.0
Increases to pensions in payment	**2.4**	2.0
Discount rate for liabilities	**2.7**	3.2
Rate of return for plan assets	**2.7**	3.2

The differential between the assumed rate of inflation and the discount rate for liabilities is 0.3% (2016: 1.2%).

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.

13. Pension Schemes (continued)

The financial assumptions are based on market conditions as at the review date of 1 July 2017 with discount rates based on the yields on long-dated high quality corporate bonds. The discount rate is lower than the discount rate used last year reflecting the change in bond yields over this period. The rate of return for plan assets is the long-term rate that reflects the yield on high quality corporate bonds as required under changes to IAS 19. The rate of return is effectively based on the discount rate with no allowance made for any outperformance expected from the scheme's actual asset holding. The actual return on the scheme's assets, net of expenses, over the year to the review date was around 6.9% (2016: -3.3%), the negative return that occurred in the previous year was impacted by the uncertainty and volatility around the time of the EU referendum vote.

Changing the year end 2017 assumptions to those of 2016 year end listed on the previous page, the deficit would have been £5,755,000 compared to the reported deficit of £10,498,000.

	2017	2016
Pre-retirement mortality assumption	**S2NA year of birth tables with CMI 2015 projections and 1.25% pa long-term rate of improvement**	S2NA year of birth tables with CMI 2015 projections and 1.25% pa long-term rate of improvement
Post-retirement mortality assumption	**S2NA year of birth tables with CMI 2015 projections and 1.25% pa long-term rate of improvement**	S2NA year of birth tables with CMI 2015 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:

	2017	2016
Male currently at age 45	**24.2**	24.1
Female currently at age 45	**26.5**	26.4
Male currently at age 65	**22.5**	22.4
Female currently at age 65	**24.6**	24.5

Sensitivity Analysis

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

	2017
Discount rate plus 0.5%	(£2.7 million)
Discount rate minus 0.5%	£3.1 million
Inflation plus 0.5%	£2.9 million
Inflation minus 0.5%	(£2.9 million)
Life expectancy plus 1.0 years	£0.7 million
Life expectancy minus 1.0 years	(£0.7 million)

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

The weighted average duration of the defined benefit obligation is around 19 years.

Risk Mitigation Strategies

Whilst the scheme does not explicitly hold risk mitigation strategies such as swaps, annuities or liability driven investments, the investment strategy is dominated by diversified growth funds which are intended to reduce the investment risk through diversification.

Effect of the Scheme on the Company's Future Cashflows

The Company is required to agree a Schedule of contributions with the Trustees of the scheme following a valuation which must be carried out at least once every three years. The next valuation of the scheme is due as at 31 December 2018. In the event that the valuation reveals a larger deficit than expected the Company may be required to increase contributions above those set out in the existing Schedule of Contributions. Conversely, if the position is better than expected contributions may be reduced. The total cash cost to the Company for the current financial year is £481,000, this includes deficit recovery contributions, pension protection fund levy fees and cost of advisors. The Company expects to pay deficit recovery contributions of £200,000 in the year to 30 June 2018. The projected net interest charge to the Consolidated Statement of Profit and Loss for the year to 30 June 2018 is £281,000. This projection assumes cashflows to and from the scheme are broadly unchanged from the current year figures and that there will be no events that would give rise to a settlement/curtailment/past service cost.

13. Pension Schemes (continued)

Consolidated Statement of Financial Position

	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000
Fair value of plan assets	**19,985**	19,287	20,587	19,741	18,728
Present value of the defined benefit obligation	**(30,483)**	(25,750)	(24,424)	(23,371)	(21,571)
Deficit	**(10,498)**	(6,463)	(3,837)	(3,630)	(2,843)
Experience adjustments on plan assets	**712**	(1,451)	656	927	332
as a percentage of plan assets	**3.6%**	7.5%	3.2%	4.7%	1.8%
Experience adjustments on plan liabilities	**-**	236	-	-	339
as a percentage of plan liabilities	**0.0%**	0.9%	0.0%	0.0%	1.6%
Total remeasurement (losses)/gains	**(4,031)**	(2,595)	(153)	(726)	(543)
as a percentage of plan liabilities	**13.2%**	10.0%	0.6%	3.1%	2.5%

14. Inventories

	2017 £000	2016 £000
Raw materials and consumables	**5,378**	7,018
Finished goods	**7,306**	5,559
	12,684	12,577

Inventories Recognised as an Expense

	2017 £000	2016 £000
Opening inventories	**12,577**	11,268
Purchases	**130,302**	135,441
Increase/(decrease) in stock provisions	**5**	(199)
Closing inventories	**(12,684)**	(12,577)
Expensed during the period	**130,200**	133,933

15. Trade and Other Receivables

	2017 £000	2016 £000
Trade receivables due from third parties	**45,163**	44,900
Other debtors	**2,610**	3,532
Prepayments and accrued income	**2,245**	1,900
	50,018	50,332

Specific provisions are made against doubtful debts taking the value of trade receivables to an estimated value based on the most likely outcome.

Cash received under the invoice discounting facility, amounting to £11,646,000 (2016: £10,824,000) is shown within current liabilities and is secured on the trade receivables above. All the risks and rewards of the trade debtors lie with the Group.

16. Cash and Cash Equivalents Including Bank Overdrafts

	2017 £000	2016 £000
Cash at bank and on hand	**11,305**	10,511
Bank overdraft	**(8,281)**	(7,487)
	3,024	3,024

17. 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.

2017	Margin	Frequency of repayments	Year of maturity	Facility £000	Drawn £000	Current £000	Non-current £000
Invoice discounting	1.50%/base	On demand	Revolving*	22,000	11,646	11,646	-
Term loan	2.00%/LIBOR	Quarterly	2019	13,400	6,337	2,568	3,769
Revolving credit	2.00%/LIBOR	Varies	2019	8,000	-	-	-
Mortgage	1.75%/LIBOR	Quarterly	2022	3,470	2,457	369	2,088
Finance lease liabilities	1.76%/base	Monthly	Various	2,000	57	57	-
Overdraft	2.00%/base	On demand	-	2,000	-	-	-
				50,870	20,497	14,640	5,857
Unamortised transaction costs					(111)	(54)	(57)
					20,386	**14,586**	**5,800**

Secured bank loans and mortgages over one year	5,857
Unamortised transaction costs	(57)
	5,800
Repayments are as follows:	
Between one and two years	2,894
Between two and five years	2,292
Between five and ten years	614
	5,800

2016	Margin	Frequency of repayments	Year of maturity	Facility £000	Drawn £000	Current £000	Non-current £000
Invoice discounting	1.50%/base	On demand	Revolving*	22,000	10,824	10,824	-
Term loan	2.00%/LIBOR	Quarterly	2019	13,400	8,905	2,568	6,337
Revolving credit	2.00%/LIBOR	Varies	2019	8,000	-	-	-
Mortgage	1.75%/LIBOR	Quarterly	2022	3,470	2,826	369	2,457
Finance lease liabilities	1.76%/base	Monthly	Various	2,000	190	133	57
Overdraft	2.00%/base	On demand	-	2,000	-	-	-
				50,870	22,745	13,894	8,851
Unamortised transaction costs					(176)	(65)	(111)
					22,569	**13,829**	**8,740**

Secured bank loans and mortgages over one year	8,851
Unamortised transaction costs	(111)
	8,740
Repayments are as follows:	
Between one and two years	2,940
Between two and five years	4,817
Between five and ten years	983
	8,740

*Revolving maturity above relates to the payment terms on the invoice discounting which is up to 90 days from the date of invoice. The invoice discounting facility renewal date is October 2019.

17. Other Interest-bearing Loans and Borrowings (continued)

Finance lease liabilities are payable as follows:

	2017 Minimum lease payments £000	2017 Interest £000	2017 Principal £000	2016 Minimum lease payments £000	2016 Interest £000	2016 Principal £000
Less than one year	**58**	**1**	**57**	136	3	133
Between one and five years	**-**	**-**	**-**	58	1	57
	58	**1**	**57**	194	4	190

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 21.

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

The bank facilities (excluding overdraft) available for drawdown are £48.9 million (2016: £48.9 million). At the period end date, the facility utilised was £20.5 million (2016: £22.7 million), giving £28.4 million (2016: £26.2 million) headroom.

18. Analysis of Net Debt

	Note	At year ended 2 July 2016 £000	Cash flow £000	At year ended 1 July 2017 £000
Cash at bank		3,024	-	**3,024**
Debt due within one year		(2,937)	-	**(2,937)**
Debt due after one year		(8,794)	2,937	**(5,857)**
Invoice discounting due within one year		(10,824)	(822)	**(11,646)**
Hire purchase obligations due within one year		(133)	76	**(57)**
Hire purchase obligations due after one year		(57)	57	**-**
Total net bank debt		(19,721)	2,248	**(17,473)**
Debt	17	(22,569)	2,183	**(20,386)**
Cash at bank		3,024	-	**3,024**
Unamortised transaction costs		(176)	65	**(111)**
Total net bank debt		(19,721)	2,248	**(17,473)**
Cash at bank		3,024	-	**3,024**
Total debt payable excluding cash		(22,745)	2,248	**(20,497)**

19. Trade and Other Payables

	2017 £000	2016 £000
Current		
Trade creditors	**36,663**	38,049
Other creditors including taxes and social security	**2,002**	1,947
Accruals and deferred income	**21,796**	24,361
	60,461	64,357

20. Deferred Tax Assets and Liabilities

Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Intangibles	**-**	-	**(1,239)**	(1,409)
Property, plant and equipment	**1,331**	-	**-**	(138)
Foreign exchange contracts	**40**	3	**(25)**	-
Short-term temporary differences	**73**	37	**-**	-
Interest rate swaps	**-**	25	**(71)**	-
Pension scheme charges	**1,785**	1,163	**-**	-
Employee share scheme charges	**460**	202	**-**	-
Losses acquired	**374**	2,062	**-**	-
Tax assets/(liabilities)	**4,063**	3,492	**(1,335)**	(1,547)
Net tax assets/(liabilities)	**2,728**	1,945	**-**	-

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

Movement in Deferred Tax during the Year

	2 July 2016 £000	Recognised in income £000	Recognised in equity £000	**1 July 2017 £000**
Intangibles	(1,409)	170	-	**(1,239)**
Property, plant and equipment	(138)	1,469	-	**1,331**
Foreign exchange contracts	3	12	-	**15**
Short-term temporary differences	37	36	-	**73**
Interest rate swaps	25	(96)	-	**(71)**
Pension scheme	1,163	1	621	**1,785**
Employee share scheme	202	211	47	**460**
Losses acquired	2,062	(1,688)	-	**374**
	1,945	115	668	**2,728**

	27 June 2015 £000	Recognised in income £000	Recognised in equity £000	Recognition of deferred tax on intangible assets*	2 July 2016 £000
Intangibles	-	345	-	(1,754)	(1,409)
Property, plant and equipment	(41)	(97)	-	-	(138)
Foreign exchange contracts	(23)	26	-	-	3
Short-term temporary differences	(39)	76	-	-	37
Interest rate swaps	72	(47)	-	-	25
Pension scheme	767	6	390	-	1,163
Employee share scheme	758	19	(575)	-	202
Losses acquired	2,849	(787)	-	-	2,062
	4,343	(459)	(185)	(1,754)	1,945

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

21. Financial Risk Management

The main purpose of the Group's financial instruments is to finance the Group's operations. The financial instruments comprise of bank term loans, invoice discounting 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 14 to 15.

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 Profit and Loss. 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 the 1 July 2017.

			Contractual cashflows including estimated interest			
At year ended 1 July 2017	**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						
Secured bank loans	**(8,683)**	(9,162)	(3,110)	(3,042)	(2,390)	(620)
Finance lease liabilities	**(57)**	(58)	(58)	-	-	-
Invoice discounting	**(11,646)**	(11,646)	(11,646)	-	-	-
Trade creditors	**(36,663)**	(36,663)	(36,663)	-	-	-
	(57,049)	(57,529)	(51,477)	(3,042)	(2,390)	(620)

			Contractual cashflows including estimated interest			
At year ended 2 July 2016	**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						
Secured bank loans	**(11,555)**	(12,401)	(3,202)	(3,128)	(5,063)	(1,008)
Finance lease liabilities	**(190)**	(194)	(136)	(58)	-	-
Invoice discounting	**(10,824)**	(10,824)	(10,824)	-	-	-
Trade creditors	**(38,049)**	(38,049)	(38,049)	-	-	-
Derivative financial liabilities						
Interest rate swaps liabilities	**(140)**	(108)	(108)	-	-	-
	(60,758)	(61,576)	(52,319)	(3,186)	(5,063)	(1,008)

The carrying amount relating to interest rate swaps is the fair value.

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.

21. Financial Risk Management (continued)

c) Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. These trading exposures are 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 57% of total revenue, the Group deems this to be low risk due to the nature of these customers. The carrying amount of the financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk for the trade receivables at the period end date was £45.2 million (2016: £44.9 million) and the ageing of trade receivables at the period end date was:

	2017 £000	2016 £000
Not past due	**41,553**	42,709
Past due 0-30 days	**3,236**	1,779
Past due 31-120 days	**317**	391
Past due more than 120 days	**57**	21
	45,163	44,900

The above numbers are net of impairment provisions. Group policy is to provide in full against all receivable balances whose full recovery is significantly in doubt. The provision is netted off the gross receivable.

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 £0.4 million past due by more than 30 days is equivalent to less than 1 day sales (2016: £0.4 million, equivalent to less than 1 day).

d) Market Risk

i) Interest Rate Risk

The Group's interest rate risk exposure is primarily to changes in variable interest rates. The Group has entered into three interest rate swap arrangements in order to hedge its risks associated with any fluctuations. Details of swaps are given in Note 12.

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

	2017 £000	2016 £000
Variable rate liabilities	**20,497**	22,745

There is no swap coverage at 1 July 2017. The Group has entered into a forward dated swap for £20,000,000 (2016: £9,000,000) to limit the risk associated with the variable rate liabilities; the interest rate for the forward dated swap is 0.455% (2016: 1.8% weighted average interest rate).

Sensitivity

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

	2017 £000	2016 £000
Profit decrease	**197**	345
Decrease in net assets	**197**	345

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

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

ii) Commodity Prices

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

iii) Foreign Exchange Risk

The Group currently supplies UK manufactured products to Lightbody Stretz Ltd, its 50% owned selling and distribution business trading primarily in Europe. The Group also purchases some raw materials in foreign currency. The consequence of this is that the Group is exposed to movement in foreign currency rates. Forward foreign exchanges contracts are used to manage the net foreign exchange exposure.

21. Financial Risk Management (continued)

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. An interim dividend for the six months to 31 December 2016 of 1.0p per share was paid on 21 April 2017 to shareholders on the register at the close of business on 31 March 2017. Subject to shareholder approval at the Company's AGM on 22 November 2017, the final dividend of 2.0 pence per share will be paid on 22 December 2017 to all shareholders on the register at 24 November 2017. It is the Company's intention to pay dividends at an affordable rate so that the Company can continue to invest in the business in order to grow profits.

The Group manages its capital by monitoring its gearing ratio on a regular basis, there are also covenant tests which are monitored regularly and presented to the Group's banks every six months. There have been no breaches of covenant tests during the year and the gearing ratio stands at 0.2 (2016: 0.2). The gearing ratio is calculated taking the total net debt including deferred consideration over net assets.

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

The Group does not have any externally imposed capital requirements.

22. 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 40.

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
- Retained earnings representing retained profits

23. Share Capital

	2017 000's	2016 000's
In issue at beginning of the financial year	**130,383**	128,037
Shares issued	**-**	2,346
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, which is intended to be used to satisfy awards made to employees (3,057,272 shares were held at the year end). All shares are the same class with equal rights.

23. Share Capital (continued)

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 Profit and Loss 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 1 July 2017 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 1 July 2017 £000**	Period of expense
29 September 2016	889,996	889,996	Nil	760	**190**	3 years
29 September 2016	544,384	544,384	Nil	524	**131**	3 years
Charge relating to options granted in the current year					**321**	
Charge relating to options granted in prior years					**919**	
Charge included in Administrative expenses					**1,240**	

There were a number of options granted during the course of the financial year to 2 July 2016 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 2016 £000	Period of expense
4 December 2015	1,200,146	972,118	Nil	947	195	3 years
4 December 2015	423,980	343,424	Nil	383	79	3 years
Charge relating to options granted in the current year					274	
Credit relating to options granted in prior years					465	
Credit included in Administrative expenses					**739**	

Details of share options outstanding at 1 July 2017 and movements during the year by exercise price is shown below:

Exercise price	**First exercise date**	**Last exercise date**	**At 2 July 2016**	**Granted**	**Forfeited**	**Cancelled**	**Exercised**	**At 1 July 2017**
58.0p	May 2017	May 2024	302,758	-	-	-	(302,758)	**-**
54.8p	Jul 2017	Jul 2024	155,172	-	-	-	-	**155,172**
Nil	Sep 2018	Dec 2025	423,980	-	-	(29,899)	-	**394,081**
Nil	Jul 2019	Jun 2025	1,859,115	-	-	-	-	**1,859,115**
Nil	Jul 2020	Dec 2025	1,200,146	-	-	-	-	**1,200,146**
Nil	Jun 2021	Sep 2026	-	889,996	-	-	-	**889,996**
Nil	Sep 2019	Sep 2026	-	544,384	-	-	-	**544,384**
			3,941,171	1,434,380	-	(29,899)	(302,758)	**5,042,894**

23. Share Capital (continued)

A summary of share options outstanding and movements for the year to 2 July 2016 is shown below:

	At 27 June 2015	Granted	Forfeited	Cancelled	Exercised	At 2 July 2016
Number of options	7,638,244	1,624,126	(39,240)	(5,253,659)	(28,300)	3,941,171

There were no options exercisable at the period end date (2016: nil). There were 302,758 options exercised during the year (2016: 28,300). The average share price at dates of exercise was 114 pence per share.

The options outstanding at the year end have weighted average exercise price of 1.7p (2016: 6.6p) and a weighted average contractual life of 5.9 years (2016: 5.9 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:

	2017	2016
Expected life of option	**3.0 years**	3.0 years
Volatility of share price	**25%**	29%
Dividend yield	**2.1%**	1.9%
Risk free discount rate	**0.10%**	0.80%
Share price at grant date	**126.5p**	110.6p
Exercise price	**Nil**	Nil
Performance period	**3 years**	3 years
Post-vesting holding period	**0-2 years**	0-2 years
Employee turnover	**Zero**	Zero

24. Dividends

An interim dividend for the six months to 31 December 2016 of 1.0p per share was paid on 21 April 2017 to shareholders on the register at the close of business on 31 March 2017. The amount paid was £1,270,233. A final dividend of 2.0p per share has been proposed taking the total dividend for the year to 3.0p per share. Subject to shareholder approval at the Company's AGM on 22 November 2017, the final dividend will be paid on 22 December 2017 to shareholders on the register at 24 November 2017.

During the year a dividend of £705,000 (2016: £336,000) was paid to the holders of the non-controlling interest in Lightbody Stretz Ltd.

25. Operating Leases

The Group has annual commitments under non-cancellable operating leases relating primarily to land and buildings, fork lift trucks and office equipment. Land and buildings have been considered separately for lease classification. Land and buildings amounts relate to leasehold properties at the Nicholas & Harris site, part of the Lightbody of Hamilton site, Fletchers' sites in London and Manchester and Johnstone's site in East Kilbride.

During the year £2,839,000 was recognised as an expense in the Consolidated Statement of Profit and Loss in respect of operating leases (2016: £2,687,000).

Future minimum lease repayments under non-cancellable operating leases at the end of the financial periods are as follows:

	Land and Buildings		Other	
	2017 £000	2016 £000	**2017 £000**	2016 £000
On leases which expire in:				
Less than one year	**2,372**	2,348	**839**	811
Between one and five years	**7,979**	8,299	**1,064**	979
More than five years	**7,805**	9,452	**29**	33
	18,156	20,099	**1,932**	1,823

26. Capital Commitments

At the financial year ended 1 July 2017, the Group had capital expenditure commitments of £429,000 (2016: £1,232,000).

27. Related Parties

Related Party Transactions and Directors' Material Interests in Transactions
A 50% owned subsidiary, Lightbody Stretz Ltd, paid Mr P Stretz, the Managing Director of Lightbody Stretz Ltd, £55,000 (2016: £58,000) in respect of rent for offices. No balances were outstanding at either year end.

The Group paid £31,000 (2016: £81,000) for the supply of finished products from and received £52,000 (2016: £83,000) for the sale of finished products to Party Fizz, a company 50% owned by Mr P Stretz. The amount payable and receivable at the year end was £nil (2016: £24,000) and £3,000 (2016: £18,000) respectively.

The Group sold finished product to Dr Zak's for a value of £196,000 during the year (2016: £269,000), the amount receivable at the year end was £68,000 (2016: £78,000).

Transactions with the Memory Lane Pension Scheme are detailed in Note 13.

Mr E Beale is the Chief Executive of City Group Plc. Directors' fees of £22,000 for Mr E Beale (2016: £45,000) have been paid to City Group. Directors' fees for Mr E Beale are ceded to his primary employer. During the previous year City Group provided Company Secretarial and ancillary services to the Group up until 31 December 2015. Fees for these services amounted to £19,380 including VAT.

Mr P Baker is a Director of Crosta & Mollica Limited. The Group sold finished product to Crosta & Mollica for a value of £284,000 (2016: £nil), the amount receivable at the year end was £36,000 (2016: £nil).

Transactions with Key Management Personnel
Directors of the Company and their immediate relatives control 3% (2016: 3%) of the voting shares of the Company.

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

	2017 £000	2016 £000
Company contributions to money purchase pension schemes	**62**	61
Executive salaries and benefits	**1,663**	1,498
Executive bonuses	**1,683**	1,049
	3,408	2,608

Share options held by Group Directors are set out in Note 6. Details of share options outstanding at 1 July 2017 for other key management personnel by exercise price is shown in the table below.

Exercise price	**Number of options at 1 July 2017**	Number of options at 2 July 2016	Earliest exercise date	Exercise expiry date
Nil	**338,951**	-	30/09/2019	29/09/2026
Nil	**279,596**	279,596	30/09/2018	04/12/2025
54.75p	**51,724**	51,724	03/07/2017	03/07/2024
58.00p	**-**	206,896	16/05/2017	16/05/2024
	670,271	538,216		

28. Post Consolidated Statement of Financial Position Events

Since the period end date, a proposal has been put forward to close our Grain D'Or business. Grain D'Or is a provider of premium baked products for the UK pastry sector and based in London. The Company entered into a formal consultation period on 1 September 2017 with circa 250 employees concerning the proposal. The business has been historically loss making and despite the implementation of a range of initiatives to improve the business including strict cost control and new working practices the site remained loss making in the year to 1 July 2017. Formal consultation is expected to conclude mid October 2017.

A formal employee group consultation has concluded at our small Campbells Cake Company factory in Twechar. A rationalisation program had decreased the volumes considerably at the site and the overhead cost of running a small remote site was not sustainable in today's competitive market. To retain the site to the required industry standards would take significant investment, which the Group could not justify given the asset limitations and small scale site. Following the formal consultation, a decision has been taken to cease production, with product manufacture being transferred within the Group and a small amount of rationalisation. The closure will affect 22 employees and site is expected to close by end October 2017.

29. Ultimate Parent Company

Finsbury Food Group Plc is the ultimate Parent Company.

Company Balance Sheet
at 1 July 2017 and 2 July 2016

	Note	2017 £000	2016 £000
Non-current assets			
Investments	37	**100,827**	100,676
Deferred taxation	38	**460**	227
		101,287	100,903
Current assets			
Debtors	39	**25,173**	27,790
Other financial assets – fair value foreign exchange contracts	40	**560**	495
Cash and cash equivalents		**6,509**	3,621
		32,242	31,906
Creditors: amounts falling due within one year	41	**(9,633)**	(10,098)
Net current assets		**22,609**	21,808
Total assets less current liabilities		**123,896**	122,711
Creditors: amounts falling due after more than one year	41&43	**(5,896)**	(8,772)
Net assets		**118,000**	113,939
Capital and reserves			
Called up share capital	44	**1,304**	1,304
Share premium account	44	**64,956**	64,956
Capital redemption reserve	44	**578**	578
Employee share reserve		**(3,585)**	(3,920)
Profit and loss account	45	**54,747**	51,021
Shareholders' funds		**118,000**	113,939

These Financial Statements were approved by the Board of Directors on 15 September 2017 and were signed on its behalf by:

Stephen Boyd
Director

Registration number: 00204368

The Notes on pages 74 to 81 form an integral part of these Financial Statements.

Company Statement of Changes in Equity

for the 52 weeks ended 1 July 2017 and 53 weeks ended 2 July 2016

	Note	Share capital £000	Share premium £000	Capital redemption reserve £000	Employee share reserve £000	Retained earnings £000	Total equity £000
Balance at 28 June 2015		1,280	64,952	578	-	33,566	100,376
Loss for the financial year		-	-	-	-	(658)	(658)
Total comprehensive loss for the period		**-**	**-**	**-**	**-**	**(658)**	**(658)**
Transactions with owners, recorded directly in equity:							
Own shares acquired		-	-	-	(3,920)	-	(3,920)
Shares issued during the year	23	24	4	-	-	(23)	5
Impact of share based payments credit to subsidiaries		-	-	-	-	(11)	(11)
Impact of share based payments	23	-	-	-	-	306	306
Deferred tax on share options		-	-	-	-	(575)	(575)
Dividend received		-	-	-	-	21,721	21,721
Dividend paid	24	-	-	-	-	(3,305)	(3,305)
Balance at 2 July 2016		**1,304**	**64,956**	**578**	**(3,920)**	**51,021**	**113,939**
Balance at 2 July 2016		1,304	64,956	578	(3,920)	51,021	113,939
Loss for the financial year		-	-	-	-	(157)	(157)
Total comprehensive loss for the period		**-**	**-**	**-**	**-**	**(157)**	**(157)**
Transactions with owners, recorded directly in equity:							
Shares issued from EBT		-	-	-	335	(158)	177
Shares issued during the year	23			-	-	-	-
Impact of share based payments charge to subsidiaries		-	-	-	-	(5)	(5)
Impact of share based payments	23	-	-	-	-	1,240	1,240
Deferred tax on share options		-	-	-	-	47	47
Dividend received		-	-	-	-	6,404	6,404
Dividend paid	24	-	-	-	-	(3,645)	(3,645)
Balance at 1 July 2017		**1,304**	**64,956**	**578**	**(3,585)**	**54,747**	**118,000**

The Notes on pages 74 to 81 form an integral part of these Financial Statements.

Notes to the Company's Financial Statements

(forming part of the Financial Statements)

30. Accounting Policies

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

Basis of Preparation

The financial year was the 52 weeks ended 1 July 2017 (prior financial year 53 weeks ended 2 July 2016).

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

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

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

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

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

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

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

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

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

Investments

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

Foreign Currency

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

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

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

Derivative Financial Instruments

The Company has derivative financial instruments in respect of interest rate swaps and foreign exchange hedges. The Company does not hold derivative financial instruments for trading purposes. The existing interest rate swaps and foreign exchange hedges used by the Company while they function as hedges, do not meet the criteria for hedge accounting set out by IAS 39, and have thus been treated as financial assets and liabilities which are carried at their fair value in the Company Balance Sheet. Fair value is deemed to be market value, which is provided by the counterparty at the year end date.

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

30. Accounting Policies (continued)

Non-derivative Financial Instruments

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

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

Trade and Other Payables

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

Cash and Cash Equivalents

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

Interest-bearing Borrowings

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

Share Based Payment Transactions

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

Taxation

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

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

Going Concern

After making enquiries and on the basis of current financial projections and available funds and facilities, the Directors are satisfied that the Company has adequate resources to continue in operation for the next 12 months and, therefore, consider it appropriate to prepare the Financial Statements on the going concern basis.

Shares held by Employee Share Trusts

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

31. Remuneration of Directors

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

32. Staff Numbers and Costs

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

	Number of employees	
	2017	2016
Directors and administrative staff	**39**	37

The aggregate payroll costs of these persons were as follows:

	2017 £000	2016 £000
Wages and salaries	**4,219**	3,330
Social security costs	**382**	463
Other pension costs	**198**	142
	4,799	3,935

33. Share Based Payments

Details of Directors share options are set out in Note 6 of the Group's Financial Statements and details of all share options issued are set out in Note 23 to the Group Financial Statements. During the year 330,301 (2016: 194,404) of the total 544,384 (2016: 423,980) share options granted were issued to employees of the Company. The remaining options were granted to employees of the subsidiary companies with corresponding charges to the relevant profit and loss accounts. The total charge in the financial year to the Company for all share options relating to current and prior years was £1,084,000 (2016: £248,000). Credits relating to options exercised, cancelled or lapsed after vesting have also been passed to the subsidiaries during the year. The charge totalled £151,000 (2016: £47,000) and has resulted in an increase (2016: increase) in the total cost of investments in the Company balance sheet. Details of Directors' share options are set out in Note 6 of the Group's Financial Statements.

34. Finance Income and Cost

Recognised in the Company Statement of Profit and Loss

	2017 £000	2016 £000
Finance income		
Change in fair value of interest rate swaps	**555**	219
Inter-group recharge	**157**	124
Bank interest receivable	**1**	2
Total finance income	**713**	345
Finance cost		
Bank interest payable	**(428)**	(532)
Interest on interest rate swap agreements	**(125)**	(273)
Total finance cost	**(553)**	(805)
Net finance cost	**160**	(460)

35. Dividends

On 16 December 2016, a final dividend of 1.87p per share was paid to shareholders on the register at the close of business on 18 November 2016, the amount paid was £2,374,822. An interim dividend for the six months to 31 December 2016 of 1.0p per share was paid on 21 April 2017 to shareholders on the register at the close of business on 31 March 2017. The amount paid was £1,270,233.

A final dividend of 2.0p per share has been proposed taking the total dividend to 3.0p per share. Subject to shareholder approval at the Company's AGM on 22 November 2017, the final dividend will be paid on 22 December 2017 to all shareholders on the register at 24 November 2017.

36. Investment in Subsidiaries and Equity Accounted Investees

Set out below are all undertakings of the Company whose results are included in the Consolidated Financial Statements for the period ended 1 July 2017.

Subsidiary	Direct/Indirect ownership	Country of incorporation	Class of shares held	**2017**	2016
Anthony Alan Foods Ltd Maes Y Coed Rd, Cardiff, CF14 4XR	Direct	England and Wales	Ordinary £1	**100%**	100%
California Cake Company Ltd 73 Bothwell Rd, Hamilton ML3 0DW	Indirect	Scotland	Ordinary £1	**100%**	100%
California Cake Company (Holdings) Ltd 73 Bothwell Rd, Hamilton ML3 0DW	Direct	Scotland	Ordinary £1	**100%**	100%
Campbells Cake Company Ltd 73 Bothwell Rd, Hamilton ML3 0DW	Indirect	Scotland	Ordinary £1	**100%**	100%
Campbells Cake (Holdings) Ltd 73 Bothwell Rd, Hamilton ML3 0DW	Direct	Scotland	Ordinary £1	**100%**	100%
Dr Zak's Ltd Unit 3 Stirling Court, Stirling Way, Borehamwood, England WD6 2BT	Indirect	England and Wales	Ordinary £1	**31%**	25%
Fennel Acquisition Ltd Maes Y Coed Rd, Cardiff, CF14 4XR	Direct	England and Wales	Ordinary £1	**100%**	100%
Fletchers Bakeries Ltd Maes Y Coed Rd, Cardiff, CF14 4XR	Indirect	England and Wales	Ordinary £1	**100%**	100%
Fletchers Bakeries Investment Ltd Maes Y Coed Rd, Cardiff, CF14 4XR	Indirect	England and Wales	Ordinary £1	**100%**	100%
Goswell Enterprises Ltd Maes Y Coed Rd, Cardiff, CF14 4XR	Indirect	England and Wales	Ordinary £1	**100%**	100%
Goswell Marketing Ltd Maes Y Coed Rd, Cardiff, CF14 4XR	Indirect	England and Wales	Ordinary £1	**100%**	100%
Johnstone's Food Service Ltd 73 Bothwell Rd, Hamilton ML3 0DW	Indirect	Scotland	Ordinary £1	**100%**	100%
Lightbody Celebration Cakes Ltd 73 Bothwell Rd, Hamilton ML3 0DW	Indirect	Scotland	Ordinary £1	**100%**	100%
Lightbody Group Ltd 73 Bothwell Rd, Hamilton ML3 0DW	Direct	Scotland	Ordinary £1	**100%**	100%
Lightbody Holdings Ltd 73 Bothwell Rd, Hamilton ML3 0DW	Indirect	Scotland	Ordinary £1	**100%**	100%
Lightbody of Hamilton Ltd 73 Bothwell Rd, Hamilton ML3 0DW	Indirect	Scotland	Ordinary £1	**100%**	100%
Lightbody-Stretz Ltd 73 Bothwell Rd, Hamilton ML3 0DW	Indirect	Scotland	Ordinary £1	**50%**	50%
Lightbody Europe SAS 14 Allée Coysevox, CS 56939, 35069 Rennes Cedex France	Indirect	France	Ordinary £1	**50%**	50%
Memory Lane Cakes Ltd Maes-y-coed Rd, Cardiff, CF14 4XR	Direct	England and Wales	Ordinary 1p	**100%**	100%
Murray Traders Ltd 3 Inch Marnock, St Leonards, East Kilbride South Lanarkshire G74 2JQ	Indirect	Scotland	Preference £1	**10.5%**	10.5%
Nicholas & Harris Ltd Maes Y Coed Rd, Cardiff, CF14 4XR	Indirect	England and Wales	Ordinary £1	**100%**	100%
Storesurvey Ltd Maes Y Coed Rd, Cardiff, CF14 4XR	Direct	England and Wales	Ordinary £1	**100%**	100%

37. Fixed Asset Investments

	£000
Cost	
At beginning of financial year	100,676
Additions	151
At end of financial year	100,827
Net book value	
At 1 July 2017	**100,827**
At 2 July 2016	100,676

The additions relate to share option charge of £151,000 (2016: £47,000) passed down to individual subsidiaries.

38. Deferred Tax

Recognised deferred tax assets and liabilities:

	Assets		Liabilities	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Employee share scheme charges	**460**	202	**-**	-
Interest rate swaps	**-**	25	**(71)**	-
Foreign exchange contracts	**-**	-	**(25)**	(89)
Tax assets/(liabilities)	**460**	227	**(96)**	(89)
Net tax assets	**364**	138	**-**	-

The deferred tax asset at 1 July 2017 has been calculated based on the rate of 17% substantively enacted at the balance sheet date. The impact through the profit and loss of reduction from 18% to 17% on recognised net deferred tax asset is £8,000 charge.

Movement in Deferred Tax during the Year

	2 July 2016 £000	Recognised in income £000	Recognised in equity £000	**1 July 2017 £000**
Employee share scheme	202	211	47	**460**
Interest rate swaps	25	(96)	-	**(71)**
Foreign exchange contracts	(89)	64	-	**(25)**
	138	179	47	**364**

Movement in Deferred Tax during the Prior Year

	28 June 2015 £000	Recognised in income £000	Recognised in equity £000	**2 July 2016 £000**
Employee share scheme	758	19	(575)	**202**
Interest rate swaps	72	(47)	-	**25**
Foreign exchange contracts	11	(100)	-	**(89)**
	841	(128)	(575)	**138**

39. Debtors

	2017 £000	2016 £000
Amounts owed by Group undertakings	**24,928**	27,700
Other taxation	**57**	15
Prepayments and accrued income	**188**	75
	25,173	27,790

40. Forward Foreign Exchange Contracts at Fair Value

The Group has entered into a number of forward foreign exchange contracts to minimise the impact of fluctuations in exchange rates. A charge of £350,000 (2016: credit £554,000) is included in administrative expenses for the periods reflecting changes in their fair value.

41. Creditors: Amounts Falling Due Within One Year

	2017 £000	2016 £000
Bank loan	**2,883**	2,872
Trade creditors	**45**	143
Amounts due to Group undertakings	**52**	33
Other financial liabilities – fair value interest rate swaps	**-**	140
Other financial liabilities – fair value foreign exchange contracts	**-**	-
Corporation tax	**134**	-
Other taxes and social security	**122**	114
Accruals and deferred income	**6,397**	6,796
	9,633	10,098

Other Financial Liabilities – Fair Value Interest Rate Swaps

The Group has one forward dated interest rate swap for five years from 3 July 2017 with a coverage of £20 million fixed at a rate of 0.455%.

Two swaps expired during the year:

£3.0m for four years from 22 May 2013 (fixed) at 1.7% expired 22 May 2017
£6.0m for three years from 2 June 2014 (fixed) at 1.9% expired 2 June 2017

There was no coverage at year end (2016: coverage of £9.0 million, equivalent to 78% of total net bank debt with a weighted average rate of 1.8%).

A credit of £555,000 (2016: £219,000) is shown in finance income for the previous year reflecting changes in the fair values of interest rate swaps. The fair values are liabilities as a result of the current low levels of base and LIBOR interest rates.

42. Creditors: Amounts Falling Due After More Than One Year

	2017 £000	2016 £000
Total bank loans and mortgages	**5,800**	8,683
Deferred tax liability	**96**	89
	5,896	8,772

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

43. Interest-bearing Loans and Borrowings

This note provides information about the contractual terms and repayment schedule of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate risk, see Note 21.

2017	Currency	Margin	Above	Frequency of repayments	Year of maturity	Total £000	Current £000	Non-current £000
Term loan	GBP	2.00%	LIBOR	Quarterly	2019	6,337	2,568	3,769
Revolving credit	GBP	2.00%	LIBOR	Varies	2019	-	-	-
Mortgage	GBP	1.75%	LIBOR	Quarterly	2022	2,457	369	2,088
Unamortised transaction costs						(111)	(54)	(57)
						8,683	2,883	5,800

Repayments are as follows:	
Between one and two years	2,894
Between two and five years	2,292
Between five and ten years	614
Between ten and fifteen years	-
	5,800

2016	Currency	Margin	Above	Frequency of repayments	Year of maturity	Total £000	Current £000	Non-current £000
Term loan	GBP	2.00%	LIBOR	Quarterly	2019	8,905	2,568	6,337
Revolving credit	GBP	2.00%	LIBOR	Varies	2019	-	-	-
Mortgage	GBP	1.75%	LIBOR	Quarterly	2022	2,826	369	2,457
Unamortised transaction costs						(176)	(65)	(111)
						11,555	2,872	8,683

Repayments are as follows:	
Between one and two years	2,883
Between two and five years	5,185
Between five and ten years	615
Between ten and fifteen years	-
	8,683

44. Called Up Share Capital

Note 23 in the Group Financial Statements gives details of called up share capital.

45. Capital and Reserves

The reconciliation of the movement in capital and reserves is shown as a primary statement in the Company's Financial Statements: Company Statement of Changes in Equity on page 73 with definition details in Note 22 to the consolidated Financial Statements.

46. Contingent Liabilities

The Company has guaranteed the overdrafts of its subsidiaries; there was a net cash position at the year end of £3,024,000 (2016: £3,024,000).

47. Related Party Disclosures

Note 27 in the Group's Financial Statements gives details of related party transactions.

48. Financial Risk Management

The Company's policies on the management of liquidity, credit and interest rate risks are managed at a Group level and are set out in Note 21 in the Group's Financial Statements and also referred to in the Strategic Report.

Notes to the Company's Financial Statements

Presentation of Financial Statements

Basis of Preparation of Consolidated Financial Statements

The Group has adopted the following IFRSs in these Financial Statements:

- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (effective date 1 January 2016)
- Equity Method in Separate Financial Statements – Amendments to IAS 27 (effective date 1 January 2016)
- Annual Improvements to IFRSs – 2012-2014 Cycle (effective date 1 January 2016)

The application of the above standards and interpretations has not had a material effect on the net assets, results and disclosures of the Group.

The IASB and the IFRIC have also issued the following standards and interpretations with an effective date after the date of these Financial Statements.

New Standards and Interpretations Endorsed but not yet Effective

- IFRS 9 Financial Instruments – effective 1 January 2018
- IFRS 15 Revenue from Contracts with Customers – effective 1 January 2018

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

New Standards and Interpretations not yet Endorsed and not yet Effective

- IFRS 16 Leases – effective from 1 January 2019
- IFRS 2 Classification and Measurement of Share-based Payment Transactions – effective 1 January 2018
- Annual Improvements to IFRSs – 2014-2016 Cycle (effective date 1 January 2018)
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective date 1 January 2018)

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

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