

**Lightbody of Hamilton Limited**

**Annual Report and Financial Statements**

**Registered Number SC064691**

**For the 52 weeks ended 1 July 2017**



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## Company Information

<b>Directors</b>	S A Boyd J G Duffy I Chree L J H Trist
<b>Secretary</b>	C Heeney Finsbury Food Group Plc Maes y coed road Cardiff CF14 4XR
<b>Registered office</b>	73 Bothwell Road Hamilton ML3 0DW
<b>Auditor</b>	KPMG LLP 3 Assembly Square Britannia Quay Cardiff CF10 4AX
<b>Bankers</b>	HSBC Bank plc 97 Bute Street Cardiff CF10 5NA

## Strategic Report

The directors present their annual report and financial statements for the 52 week period ended 1 July 2017.

### Principal activities

The principal activity of the company during the period was the manufacture of bakery products.

### Performance and key performance indicators

The key performance indicators for the period to 1 July 2017 and comparatives are shown below:

- Turnover £81,332,000 (2016: £80,761,000), being turnover as shown in the statutory profit and loss account
- Gross margin 30.12% (2016: 32.7%), being gross profit as a percentage of turnover as shown in the statutory profit and loss account
- Trading profit before tax £4,428,000 (2016: £2,627,000), being the profit before tax as shown in the statutory profit and loss account.

### Business review

The company operates in the ambient cake market, supplying premium birthday, celebration and bite size cake products to the UK's multiple retailers. It is the UK's largest supplier of celebration cake. It also produces a range of small cakes, a number of which are under licensed brands including Thornton's and Weight Watchers.

### Business performance

The financial year saw an increase in turnover of 7% (9% on a like for like 52 week basis), licenced celebration cake continued to thrive in the year with celebration cake significantly outperforming the overall cake market with value sales growing by 6.8% (data is 52 we 13th Aug 2016 (Source: IRI)).

The economic environment remains challenging, with promotional activity continuing to remain at high levels across most cake categories. The company continues to focus on product quality and innovation as well as continuing to strengthen its range of character licenses and its branded portfolio. The company aims to improve its margin with significant investment in the year on site capabilities to increase efficiency alongside managing capacity, reformulating and developing products that stand out from the crowd and maintaining strong relationships with customers and licensors.

The directors have reviewed the company's financial position and having regard to Group funding arrangements are satisfied that the company is well placed to manage its financial position and its business risks successfully despite the current economic outlook.

### Risks and uncertainties

The company operates in an environment which is continually changing and as a result the risks it faces will also change over time. A formal review of these risks is carried out at the Finsbury Food Group Plc (Group) level on an annual basis. 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 and its subsidiaries are controlled and managed internally. The risk review process involves the identification of current 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.

Details of the principal risks and uncertainties can be found in the Business Review section of the Finsbury Food Group Plc published accounts.

## Strategic Report *(continued)*

### Dividend

A dividend of £3,400,000 was declared and paid during the financial year (2016: £3,500,000).

### Future outlook

The company will continue to invest in production capability and people which will bring an element of organic expansion which will in turn help us respond to consumer needs through diversification of products and customer bases. Working with retailers to meet changing consumer needs is key, in addition to this the focus will be on growth and investing in employees.

By order of the board



**I Chree**  
Director

73 Bothwell Road  
Hamilton  
ML3 0DW

28 March 2018

## Directors' Report

The directors present their directors' report and financial statements for the 52 week period ended 1 July 2017.

### Directors

The directors who held office during the period and to the date of this report were:

S A Boyd  
J G Duffy  
I Chree  
LJH Trist

### Political and charitable contributions

The company made no charitable donations during the period (2016: *Nil*).

### Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each 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 to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

### Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

I Chree  
Director



73 Bothwell Road  
Hamilton  
ML3 0DW

28 March 2018

## **Statement of directors' responsibilities in respect of the Annual Report and the financial statements**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the 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 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the 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 company and to prevent and detect fraud and other irregularities.



**KPMG LLP**

3 Assembly Square

Britannia Quay

Cardiff

CF10 4AX

United Kingdom

## **Independent Auditor's Report to the members of Lightbody of Hamilton Limited**

### **Opinion**

We have audited the financial statements of Lightbody of Hamilton Limited ("the company") for the year ended 1 July 2017 which comprise the Profit and Loss Account and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 1 July 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- 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 company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### **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.

### **Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report 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 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.



# **Independent auditor's report to the members of Lightbody of Hamilton Limited**

*(continued)*

## **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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

## **Directors' responsibilities**

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for 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 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 company or to cease operations, or have no realistic alternative but to do so.

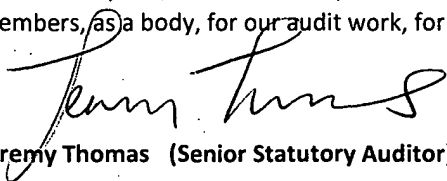
## **Auditor's responsibilities**

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](http://www.frc.org.uk/auditorsresponsibilities).

## **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.



**Jeremy Thomas (Senior Statutory Auditor)**

**for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants  
3 Assembly Square  
Britannia Quay  
Cardiff Bay  
CF10 4AX

29 March 2018

**Profit and Loss Account and Other Comprehensive Income**  
*for the 52 weeks ended 1 July 2017*

	<i>Note</i>	<b>2017</b> <b>£000</b>	<b>2016</b> <b>£000</b>
<b>Turnover</b>	<b>2</b>	<b>81,332</b>	<b>80,761</b>
Cost of sales		<b>(56,831)</b>	<b>(54,347)</b>
<b>Gross profit</b>		<b>24,501</b>	<b>26,414</b>
Administrative expenses		<b>(19,801)</b>	<b>(23,538)</b>
<b>Operating profit</b>	<b>3</b>	<b>4,700</b>	<b>2,876</b>
Interest payable and similar charges	<b>6</b>	<b>(272)</b>	<b>(249)</b>
<b>Profit on ordinary activities before taxation</b>		<b>4,428</b>	<b>2,627</b>
Tax on profit on ordinary activities	<b>7</b>	<b>(791)</b>	<b>(733)</b>
<b>Profit for the financial year, being total comprehensive income</b>		<b>3,637</b>	<b>1,894</b>

All amounts relate to continuing operations.

There was no other comprehensive for 2017 or 2016 other than those included in the profit and loss account. For this reason, no separate statement of Other comprehensive income has been presented.

The notes on pages 11 to 28 form part of these financial statements.

## Balance Sheet

at 1 July 2017 and 2 July 2016

	Note	2017 £000	2017 £000	2016 £000	2016 £000
<b>Fixed assets</b>					
Goodwill	8		262		262
Tangible assets	9		12,424		12,276
Investments	10		25		25
			<u>12,711</u>		<u>12,563</u>
<b>Current assets</b>					
Stocks	11	2,211		2,150	
Debtors	12	31,212		28,920	
Cash at bank and in hand		7		11	
		<u>33,430</u>		<u>31,081</u>	
<b>Creditors: amounts falling due within one year</b>	13	<u>(36,914)</u>		<u>(34,636)</u>	
<b>Net current liabilities</b>			<u>(3,484)</u>		<u>(3,555)</u>
<b>Total assets less current liabilities</b>			<u>9,227</u>		<u>9,008</u>
<b>Creditors: amounts falling due after more than one year</b>	14		-		(57)
<b>Provisions for liabilities</b>					
Deferred taxation	15		(226)		(213)
<b>Net assets</b>			<u>9,001</u>		<u>8,738</u>
<b>Capital and reserves</b>					
Called up share capital	16		250		250
Capital contribution account			68		25
Profit and loss account			8,683		8,463
<b>Equity shareholders' funds</b>			<u>9,001</u>		<u>8,738</u>

These financial statements were approved by the board of directors on 28 March 2018 and were signed on its behalf by:

  
I Chree  
Director

Company Registered number: SC064691

The notes on page 11 to 28 form part of these financial statements.

## Statement of Changes in Equity

Equity attributable to equity shareholders of the Company

	Share capital £000	Capital contribution £000	Profit and loss account £000	Total £000
Balance at 27 June 2016	250	22	10,119	10,391
Profit for the financial year	-	-	1,894	1,894
<b>Transactions with owners, recorded directly in equity</b>				
Dividends	-	-	(3,500)	(3,500)
Foreign exchange translation differences	-	-	(69)	(69)
Share based payments	-	3	19	22
Balance at 2 July 2016	250	25	8,463	8,738
Profit for the financial year	-	-	3,637	3,637
<b>Transactions with owners, recorded directly in equity</b>				
Dividends	-	-	(3,400)	(3,400)
Foreign exchange translation differences	-	-	(17)	(17)
Share based payments	-	43	-	43
Balance at 1 July 2017	250	68	8,683	9,001

The notes on pages 11 to 28 form part of these financial statements.

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

Lightbody of Hamilton Limited (the "Company") is a company incorporated and domiciled in the UK. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

The company has taken the exemption from preparing consolidated accounts conferred by Section 400 of the Companies Act 2006. It is entitled to the exemption because the accounts of the company and its subsidiaries are included in the consolidated accounts of a larger group, drawn up in a manner equivalent to the Seventh Directive. These financial statements present information about the company as an individual undertaking and not about its group. The accounts of the larger group for the 52 weeks ended 1 July 2017 are available from the address listed in below.

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's parent undertaking, Finsbury Food Group plc, includes the Company in its consolidated financial statements. The consolidated financial statements of Finsbury Food Group Plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Finsbury Food Group Plc, Maes y Coed Road, Cardiff, CF14 4XR.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets, and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of 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 IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets
- Certain disclosures required by IFRS 3 *Business Combinations* in respect of business combinations undertaken by the Company in the prior periods including the comparative period reconciliation for goodwill; and
- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

## **Notes (continued)**

### **1 Accounting policies (continued)**

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

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below:

#### ***Accounting estimates and judgements***

The Company 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 and ones deemed significant are referred to within the relevant accounting policy note.

#### ***Basis of preparation***

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. The company is presumed to be carrying on business as a going concern. The financial year represents the 52 weeks ended 1 July 2017 (the prior financial year represents the 53 weeks ended 2 July 2016).

The company has net current liabilities at the balance sheet date which indicates that the company may not be able to meet all its debts as they fall due. The directors believe the going concern basis to be appropriate, however, as Finsbury Food Group Plc, the parent company, has indicated its intention to provide sufficient financial support to enable the company to continue to trade until at least 12 months after the date on which these accounts were signed. The directors have also estimated the company's likely cash requirements until that date and believe that Finsbury Food Group Plc has adequate resources to provide the necessary support. As with any company placing reliance on group entities for financial support, the directors acknowledge that there can be no certainty this support will continue, although at the date of approval of these financial statements, they have no reason to believe that it will not do so.

#### ***Turnover***

Turnover comprises revenue recognised by the company in respect of goods and services supplied, exclusive of Value Added Tax and trade discounts. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and probable return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be reliably measured. In practice this is usually upon despatch.

#### ***Licence fees***

Payments made for licence fee charges are recognised in the income statement in the period to which they relate. Any charges relating to future years are deferred and recognised in the income statement over the life of the contract.

## **Notes (continued)**

### **1 Accounting policies (continued)**

#### ***Intangible fixed assets and amortisation***

Positive goodwill is the difference between amounts paid on the acquisition of a business and the fair value of the identifiable assets and liabilities. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units. It is not amortised but is tested annually for impairment. This is not in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 which requires that all goodwill be amortised. The directors consider that this would fail to give a true and fair view of the profit for the year and that the economic measure of performance in any period is properly made by reference only to any impairment that may have arisen. It is not practicable to quantify the effect on the financial statements of this departure.

#### ***Research and development***

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

#### ***Other intangible assets***

Expenditure on internally generated goodwill and brands is recognised in the profit and loss account as an expense as incurred.

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

The cost of an intangible asset acquired in a business combination is its fair value at the acquisition date.

#### ***Dividends on shares presented within shareholders' funds***

Dividends are only recognised as a liability at that date to the extent that they are declared prior to the year end. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

## Notes (continued)

### 1 Accounting policies (continued)

#### **Tangible fixed assets and depreciation**

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. The estimated useful lives are as follows:

Plant and machinery	-	10% - 25% straight line
Motor vehicles	-	25% straight line
Fixtures and fittings	-	10% - 20% straight line
Freehold buildings	-	2-5% straight line

Freehold land is not depreciated. Assets in the course of construction are not depreciated until they are brought into use.

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

#### **Leasing and hire purchase**

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

#### **Non-derivative financial instruments**

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

##### **Trade and other debtors**

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

##### **Trade and other creditors**

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

##### **Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.



## Notes (continued)

### 1 Accounting policies (continued)

#### Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

#### Impairment excluding stocks, and deferred tax assets

##### Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

##### Non-financial assets

The carrying amounts of the Company's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing 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.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is reversed if and only if the reasons for the impairment have ceased to apply.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## Notes (continued)

### 1 Accounting policies (continued)

#### **Investments**

Investments are stated at cost, less provision for any impairment.

#### **Employee benefits**

The Company operates a defined contribution pension plan.

##### *Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

##### *Short-term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

##### *Share-based payment transactions*

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

The grant date fair value of share-based payments awards 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 awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where the Company's parent grants rights to its equity instruments to the Company's employees, which are accounted for as equity-settled in the consolidated accounts of the parent, the Company accounts for these share-based payments as equity-settled. Amounts recharged by the parent are recognised as a recharge liability with a corresponding debit to equity.

#### **Provisions**

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

## Notes (continued)

### 1 Accounting policies (continued)

#### Expenses

##### *Operating lease payments*

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense.

##### *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. Contingent rents are charged as expenses in the periods in which they are incurred.

##### *Interest receivable and interest payable*

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

#### Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet 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 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 balance sheet 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.

#### Foreign currencies

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account

## Notes (continued)

### 2. Analysis of turnover

The whole of the turnover is attributable to the sale of bakery products.

A geographical analysis of turnover is as follows:

	2017 £000	2016 £000
United Kingdom	71,252	71,546
Rest of European Union	10,080	9,215
	<u>81,332</u>	<u>80,761</u>

### 3. Operating profit

	2017 £000	2016 £000
<b>Operating profit is stated after charging:</b>		
Depreciation and other amounts written off tangible fixed assets:		
Owned	1,535	1,448
Leased	118	118
Impairment of goodwill	-	1,988
Hire of plant and machinery - operating leases	220	130
Hire of other assets - operating leases	85	87
Hire of land and buildings - operating leases	635	571
Research and development expenditure expensed as incurred	1,213	1,243
	<u></u>	<u></u>
<b>Auditor's remuneration:</b>		
Audit of these financial statements	32	27
	<u></u>	<u></u>

Amounts receivable by the company's auditor in respect of services to the company and its associates, other than the audit of the company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the company's parent, Finsbury Food Group Plc.

### 4. Remuneration of directors

	2017 £000	2016 £000
Directors' emoluments	521	451
Company contributions to money purchase pension schemes	11	10
	<u>532</u>	<u>461</u>

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £320,000 (2016: £269,000), including company pension contributions of £7,000 (2016: £7,000) were made to a money purchase scheme on his behalf.

During the financial year ended 1 July 2017 retirement benefits were accruing to two directors (2016: two) in respect of defined contribution pension schemes.

## Notes (continued)

### 4. Remuneration of directors (continued)

In addition to the remuneration shown in the table on page 18, £123,000 (2016: £112,000) relates to the services of 3 directors who are legal directors not remunerated through the legal entity.

### 5. Staff numbers and costs

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

	Number of employees	
	2017	2016
Production	1,022	922
Administration	116	113
	<hr/>	<hr/>
	1,138	1,035
	<hr/>	<hr/>

At the year end, the number of persons employed by the company (including directors), analysed by category, was as follows:

	Number of employees	
	2017	2016
Production	1,008	973
Administration	115	117
	<hr/>	<hr/>
	1,123	1,090
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	2017	2016
	£000	£000
Wages and salaries	20,329	19,362
Social security costs	1,543	1,681
Other pension costs	163	156
Share based payments	(43)	(25)
	<hr/>	<hr/>
	21,992	21,174
	<hr/>	<hr/>

**Notes (continued)**

**6. Interest payable and similar charges**

	2017 £000	2016 £000
Finance charges payable in respect of finance leases and hire purchase contracts	102	111
Interest payable on group balances	170	138
	<u>272</u>	<u>249</u>

**7. Taxation**

Recognised in the profit and loss account  
*Analysis of tax charge in the year*

*Current tax* (see note below)

UK corporation tax on profit for the year  
Adjustments in respect of prior periods

Total current tax

*Deferred tax*

Origination and reversal of timing differences  
Adjustment in respect of prior periods

Total deferred tax (see note 15)

Tax on profit on ordinary activities

*Reconciliation of effective tax rate*

*Current tax reconciliation*

Profit for the year  
Total tax expense

Profit excluding tax

Tax using the corporation tax rate of 19.76% (2016: 20.00%)

*Effects of:*

Depreciation on ineligible assets  
Relief for share options exercised  
Expenses not deductible for tax purposes\*  
R&D uplift  
Adjustments in respect of prior periods  
Group relief received  
Reduction in tax rate on deferred tax balances and reduction in rates

Total tax expense

2017 £000	2016 £000
884	748
(106)	(10)
<u>778</u>	<u>738</u>
(29)	31
42	(36)
<u>13</u>	<u>(5)</u>
<u>791</u>	<u>733</u>
3,637	1,894
<u>791</u>	<u>733</u>
<u>4,428</u>	<u>2,627</u>
<u>875</u>	<u>525</u>
37	12
	5
14	398
(60)	(60)
(64)	(46)
-	(77)
(11)	(24)
<u>791</u>	<u>733</u>

## Notes (continued)

### 7. Taxation (continued)

\*Expenses not deductible for tax purposes include disallowable intangible impairment charge of £1,988,000 in the prior year.

#### *Factors that may affect future tax charges*

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 1 July 2017 has been calculated based on these rates.

### 8. Intangible fixed assets – goodwill

	Total £000
<i>Cost at beginning and end of year</i>	3,328
<i>Amortisation and impairment</i>	
At beginning of year	3,066
Impairment for period	-
	<hr/>
At end of year	262
	<hr/>
<i>Net book value</i>	
At 1 July 2017	262
	<hr/>
At 2 July 2016	262
	<hr/>

#### *Impairment testing*

The Company tests for goodwill 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 unit which is considered to be the Company are determined from value in use calculations. The assumptions for discount rates used for future cashflows and the anticipated future changes in revenue, direct costs and indirect costs reflect the past experience of management and future expectations.

## Notes (continued)

### 9. Tangible fixed assets

	Freehold land and buildings	Plant and machinery	Motor vehicles, fixtures and fittings	Total
	£000	£000	£000	£000
<b>Cost</b>				
At beginning of year	3,513	22,001	2,224	27,738
Additions	-	1,777	99	1,876
Disposals	-	(2,999)	(1,139)	(4,138)
At end of year	3,513	20,779	1,184	25,476
<b>Depreciation</b>				
At beginning of year	521	13,143	1,798	15,462
Charge for year	58	1,357	238	1,653
Disposals	-	(2,924)	(1,139)	(4,063)
At end of year	579	11,576	897	13,052
<b>Net book value</b>				
At 1 July 2017	2,934	9,203	287	12,424
At 2 July 2016	2,992	8,858	426	12,276

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	2017 £000	2016 £000
Plant and machinery	302	420

The depreciation charged to the financial statements in the year in respect of such assets amounted to £118,000 (2016: £118,000).



## Notes (continued)

### 10. Fixed asset investments

	Unlisted investments £000
<b>Cost at beginning and end of year</b>	
Preference shares in Murray Traders Limited (10.5% of the issued share capital of the company)	25

### Principal subsidiaries

Company name	Country of incorporation	Principal activity	Class and percentage of shares held
Johnstone's Food Service Limited 73 Bothwell Rd, Hamilton ML3 0DW	Scotland	Bakery products manufacturer	100%*
Lightbody Celebration Cakes Limited 73 Bothwell Rd, Hamilton ML3 0DW	Scotland	Non-trading	100%

\* Johnstone's Food Service Limited was a new company incorporated on 7 April 2015 with 1 ordinary share of £1.

### 11. Stocks

	2017 £000	2016 £000
Raw materials	1,305	1,247
Work in progress	248	279
Finished goods and goods for resale	659	624
	<b>2,212</b>	<b>2,150</b>

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £34,937 (2016: £33,141). The write-down of stocks to net realisable value amounted to nil (2016: nil). The reversal of write-downs amounted to nil (2016: £99,000). The write-down and reversal are included in cost of sales. Specific provisions are made using best estimates, these estimates may differ from actual events leading to an increase in provision or a reduction in the required provision.

### 12. Debtors

	2017 £000	2016 £000
Trade debtors	10,554	9,766
Amounts owed by group undertakings	18,180	16,985
Other debtors	591	815
Corporation tax	1,245	1,038
Prepayments and accrued income	642	316
	<b>31,212</b>	<b>28,920</b>

The invoice discounting liability amounting to £4,409,000 (2016: £1,932,000) is secured on trade receivables above. All the risks and rewards of the trade debtors lie with the company.

## Notes (continued)

### 13. Creditors: amounts falling due within one year

	2017 £000	2016 £000
Net obligations under finance leases and hire purchase contracts	57	70
Bank loan - invoice discounting	4,409	1,932
Bank overdraft	6,291	5,149
Trade creditors	9,565	9,479
Amounts owed to group undertakings	13,407	14,689
Social security and other taxes	453	430
Accruals and deferred income	2,732	2,887
	<u>36,914</u>	<u>34,636</u>

Hire purchase obligations are secured on the underlying assets. Amounts owed to Group undertakings are repayable on demand and accrue interest at 2.15% per annum (2016: 2.3%).

### 14. Creditors: amounts falling due after more than one year

	2017 £000	2016 £000
Net obligations under finance leases and hire purchase contracts	-	57

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

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	2017 £000	2016 £000
Within one year	57	70
In the second to fifth years	-	57
	<u>57</u>	<u>127</u>

**Notes (continued)**

**15. Deferred taxation**

	2017 £000	2016 £000
At beginning of year	213	218
Charge for financial year	(29)	31
Adjustment in respect of prior year	42	(36)
	<hr/>	<hr/>
At end of year	226	213
	<hr/>	<hr/>

The provision for deferred taxation is made up as follows:

	2017 £000	2016 £000
Accelerated capital allowances	261	214
Other timing differences	(35)	(1)
	<hr/>	<hr/>
	226	213
	<hr/>	<hr/>

**16. Called up share capital**

	2017 £000	2016 £000
<i>Allotted, called up and fully paid</i>		
250,000 (2016: 250,000) ordinary shares of £1 each	250	250
	<hr/>	<hr/>

## Notes (continued)

### 17. Share based payments

The Finsbury Food Group operates both approved and unapproved share option schemes, through which employees of the company are able to acquire shares of Finsbury Food Group. There are no grants to employees of shares or options in shares of the company.

The cost of the share option schemes is passed down by the Group to the relevant subsidiary. The fair value of options granted is recognised as an employee expense with a corresponding increase in reserves to reflect the capital contribution that the parent company is making to Lightbody of Hamilton Limited in granting the share options.

The value is calculated at the grant date and ultimately expensed in the income statement over the vesting period, based on the best available estimate of the number of share options expected to vest.

Administrative expenses include a charge of £43,391 for the financial year to 1 July 2017 (2016: charge of £21,699). There is a charge of £8,208 relating to options granted in the current year (2016: £18,806).

Details of all options granted are given below. The aggregate of the estimated fair values of options granted during the year is £32,832 (2016: £81,458) of which £8,208 (2016: £18,806) has been expensed in the year.

On 29 September 2016, options over 34,129 shares were granted to 2 members of senior management under the Long Term Incentive Plan at an exercise price of nil p. The estimated fair value of these options was £33,000 and this is being expensed over 3 years from the date of the grant.

On 4 December 2015, options over 98,274 shares were granted to 3 members of senior management under the Long Term Incentive Plan at an exercise price of nil p. The estimated fair value of these options was £81,000 and this is being expensed over 3 years from the date of the grant.

On 3 July 2014, options over 103,448 shares were granted to 2 members of senior management under the Long Term Incentive Plan at an exercise price of 54.8p. The estimated fair value of these options was £9,000 and this is being expensed over 3 years from the date of the grant.

During the year options over no (2016: 14,940) shares were forfeited due to exit from employment, none were cancelled (2016: 3,960), 34,129 were granted (2016: 101,313) and none (2016: 28,300) were exercised.

In prior years, the company has used the QCS-IRS option valuer™ based on the Black-Scholes-Merton based option pricing model, to calculate the value of the outstanding options. For the current year, the company has used the Monte Carlo model that is consistent with the mathematics underlying the Black-Scholes formula, which is generally accepted for the purpose of IFRS2. The model runs many thousands of simulations of the future and calculates the value of an award under each simulation allowing for the performance conditions.

Detail of share options outstanding at 1 July 2017 by exercise price is shown below:

Exercise price	First exercise date	Last exercise date	At 2 July 2016	Forfeited	Cancelled	Exercised	Granted	At 1 July 2017
0.0p	Sep 2019	Sep 2026	-	-	-	-	34,129	34,129
0.0p	Sep 2018	Dec 2025	101,313	-	-	-	-	101,313
54.8p	Jul 2017	Jul 2024	103,448	-	-	-	-	103,448
			204,761	-	-	-	34,129	238,890

## Notes (continued)

### 18. Dividends paid

A dividend of £3,400,000 (2016: £3,500,000) was declared and paid during the year.

### 19. Contingent liabilities

The company is subject to a cross guarantee in the form of a fixed and floating charge over the assets of the Group of which it is a subsidiary. The Group's principal bank borrowings at 1 July 2017 were £17,473,000 (2016: £19,721,000).

### 20. Commitments

Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

	2017 £000	2016 £000
Contracted	297	559

### 21. Pension commitments

The total pension contributions made by the company during the year were £162,802 (2016: £155,661). The amount outstanding at the year end was £16,186 (2016: £17,565).

### 22. Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

	2017 Land, buildings and other £000	2016 Land, buildings and other £000
Operating lease which expire:		
In less than 1 year	853	655
In the second to fifth years inclusive	2,743	2,367
More than 5 years	2,166	2,702
	<u>5,762</u>	<u>5,724</u>

Significant leases relate to the main production units and various units leased for warehousing.

**Notes** *(continued)*

**23. Ultimate parent company and parent undertaking of larger group of which the company is a member**

The ultimate parent company and controlling party is Finsbury Food Group Plc, a company incorporated in Great Britain. The largest and smallest group which includes the company and for which group financial statements are prepared is Finsbury Food Group Plc.

Consolidated Group accounts are available from:

Finsbury Food Group Plc  
Maes-y-coed road  
Cardiff  
CF14 4XR

**24. Post balance sheet events**

Since the balance sheet date there have been no significant events.