

# Real Good Food plc

Cake Decoration • Food Ingredients • Premium Bakery



**Annual Report and Accounts**  
For the year ended 31 March 2018

# Real Good Food plc

Real Good Food operates  
in three divisions:



## Cake Decoration



## Food Ingredients




## Premium Bakery


The Group's current objective:  
to deliver a return on investment for all our stakeholders.

The Group's current strategy:  
to provide a stable financial platform for the Group through  
improving the profitability of the Group as a whole and its  
underlying businesses. Where appropriate, and only where it  
maximises value for stakeholders, that could include finding a more  
suitable home for a constituent business.

 [www.realgoodfoodplc.com](http://www.realgoodfoodplc.com)

### Navigating the Report

 For further information within this  
document and relevant page numbers

 Additional information online

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# Overview

## Financial highlights

- Revenue increased by 20% from £107.7million to £129.8million.
- EBITDA (adjusted) reduced from a profit of £1.4million to a loss of £2.6million, leading to an operating loss of £23.2million (2017: loss of £5.6million).
- Loss before tax was £25.2million, after impairment charges of £10.5 million and significant items of £5.0 million, with an underlying loss before tax of £9.7 million (2017: loss of £6.2million).
- Losses reflect the recognition of asset values (note 18) and historic disruption caused by an intense period of ambitious investment, which led to an inflated overhead base.
- Since new management took control, some £2.8million has been taken out of annualised central costs.
- Profitability was also affected by rising raw material costs and increased competition, exacerbating the impact of poor financial control of central costs.
- New management and a refreshed Board have brought rigour to corporate governance, accounting practices and commercial discipline over the period.
- The Company is now properly financed for the longer term (note 23), providing a platform to maximise earnings while also looking to optimise shareholder value, including, where appropriate, through managed disposals of constituent businesses (note 34).

## Operational highlights and post-period end

- Governance and control:
  - A simple, clear objective and a turnaround strategy has been articulated and is well underway, focusing on core assets.
  - Significant Board changes made to improve corporate governance:
    - Appointment of Hugh CL Cawley as CEO from 1 January 2018.
    - Two new independent Non-Executive Directors appointed post year-end.
  - Improvements to financial processes and procedures.
  - Corporate governance review carried out by Ernst & Young and all recommendations being implemented.
  - Continuing and enduring support of the Group's major shareholders.
- Operational:
  - Disposal of two non-core businesses to focus more strongly on Cake Decoration and Food Ingredients, for a total consideration of £13.8 million.
  - Central costs now materially reduced.
  - Restructuring of financing undertaken raising up to £9.7million post year-end to reduce debt and provide the platform for future growth and managed disposals where appropriate.

## Current trading

- Trading is in line with our expectation for the year.
- Christmas period remains critically important for Renshaw, one of the Group's principal continuing businesses.

\*See note 5 for reconciliation.



Financial information presented relates to continuing operations.

# The Group in Summary

Real Good Food operated in three divisions –  
Cake Decoration, Food Ingredients and Premium Bakery.

## The three divisions

Each division comprises individual businesses, working together to varying degrees, dependent upon the opportunities beneficially to co-operate.

## Head Office

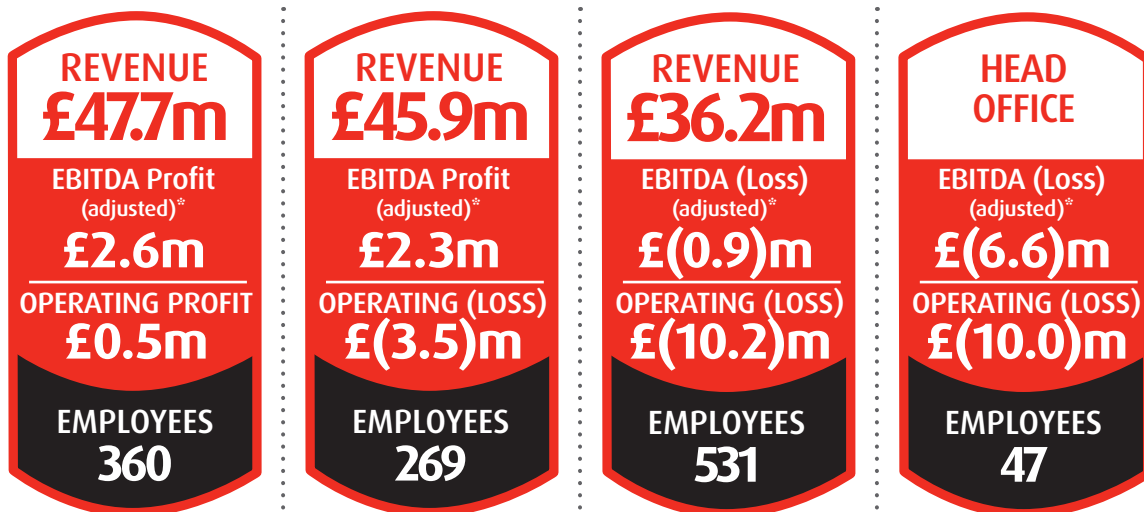
The central functions have reduced markedly since the period under review, and now comprise Finance, Technical, Innovation and Information Services, providing support to the businesses as required. Each business generally has the resources to operate as a stand-alone unit, but clearly, each is able to call upon the centre or the other businesses as required.



# Real Good Food



Cake Decoration • Food Ingredients • Premium Bakery



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\*See note 5 for reconciliation



## Cake Decoration

**Renshaw** manufactures sugarpaste, marzipan, soft icings, mallow and caramels and sells across a broad range of sales channels: mainstream and specialist retail, wholesale, foodservice and food manufacturing as well as export.

**Rainbow Dust Colours** produces a range of edible glitters, dusts, powders and food paints, brushes and pens for the specialist sugarcraft sector. **Renshaw Europe** sells, markets and distributes both Renshaw and Rainbow Dust products across Continental Europe.

**Renshaw:** Liverpool, 311 employees

**Rainbow Dust Colours:** Preston, 30 employees

**Renshaw Europe:** Brussels, 14 employees

**Renshaw Americas:** New Jersey, 5 employees



## Food Ingredients

**R&W Scott** manufactures chocolate coatings, sauces, jams and dry powder blends for industrial, retail, wholesale and foodservice markets. **Brighter Foods** (acquired in April 2017) manufactures snack bars, both branded and own label, targeted at areas such as diet control, gluten free, lactose free, low or no added sugar, sports nutrition, organic and fair trade. **Garrett Ingredients**, sold to Kent Foods in April 2018, after the period under review had closed, sources dairy, sugar and other specialist food ingredients from across the UK, Eire and Continental Europe, selling them to large, medium and small food manufacturers across the UK. Through a sub-division of Garrett Ingredients, **GI Nutrition**, the business that was discontinued in October 2017, it also manufactured and sold whey protein supplements and sports nutrition products through retail and specialist sales channels.

**R&W Scott:** Carlisle, near Glasgow, 94 employees

**Brighter Foods:** Tywyn, Wales, 168 employees

**Garrett Ingredients:** Thornbury, near Bristol, and Swindon, Wiltshire, 7 employees



## Premium Bakery

**Haydens Bakery**, sold to Bakkavor Limited in September 2018 after the period under review had closed, bakes premium tarts, pies and crumbles, Danish pastries, sweet buns, yum yums and doughnuts and sells to major retail customers and through foodservice channels. It operates both an ambient and frozen supply chain. It also operates a same-day consolidation service for all Waitrose stores for both Haydens and third party producers.

**Chantilly** manufactures premium quality frozen desserts (e.g. gateaux, cheesecakes, tarts and flans) and sells them to pubs and restaurants.

**Haydens:** Devizes, Wiltshire, 496 employees

**Chantilly:** Paignton, Devon, 35 employees

# Strategic Review

## Introduction

The year under review was one which the Company will look back on with little pride or satisfaction, but from which we believe many valuable lessons have been learnt which will stand us in good stead in the future. The importance of strong corporate governance and clear strategic direction, the ill-advisedness of investing before having secured the necessary funding and without having a clear, rational, unequivocal business case, and the enormous consequential direct and indirect cost of failings in these areas, all feature prominently in the reasons for our poor performance in this period.

However, the Board is pleased to report that since the start of 2018, we have begun to take many of the remedial actions to turn around the Group performance, continuing these steps beyond the financial year end. Moreover, we can now see the benefits of these actions in terms of having eliminated term bank debt, much reduced costs and a greater focus on our continuing core businesses, all of which provide optimism for the future.

## 2017/18 performance

Revenues from continuing businesses increased in the year from £107.7 million in 2016/17 to £129.8 million in 2017/18, reflecting not least the effect of the acquisition of Brighter Foods from April 2017 (which added £16.1 million of revenues). EBITDA (adjusted) (see table for reconciliation) in the same period dropped, however, from a positive £1.4 million in 2016/17 to a negative £2.6 million in 2017/18, with a resulting operating loss, after taking account of the exceptional ("significant") items of £5.0 million, and impairment charges of £10.5 million, the statutory loss before tax totalled £25.2 million (2017: £6.2 million).

## Continuing operations

	31 March 2018 £'000s	31 March 2017 £'000s
Profit/(Loss) before taxation	<b>(25,167)</b>	(6,236)
Depreciation of property, plant and equipment	<b>2,909</b>	2,428
Impairment charge	<b>10,494</b>	4,109
Amortisation of intangibles	<b>2,269</b>	360
Significant Items	<b>5,009</b>	87
Finance Costs	<b>1,756</b>	427
Other Finance Costs	<b>164</b>	216
EBITDA (adjusted) Profit / (Loss)	<b>(2,566)</b>	1,391

These significant losses arose from a number of issues. There was uncontrolled growth in the infrastructure and overhead base of the businesses and Head Office, in anticipation of significant, unprecedented and unrealised growth in revenues. It can be argued that these arose from a blurring of focus on the commercial imperatives of the businesses as sizeable capital investments were implemented in less than perfectly managed projects. We were also affected by the macro-economy with a variety of unfavourable movements in external influences, including commodity prices, exchange rates and litigation. Our inflexible and monolithic inability to adapt to these macro changes exacerbated an already complex situation. Change was required and the current Board has embraced the radical change and discipline necessary for a turnaround. In line with our review of corporate governance, we also appraised the accounting practices of the recent past and, of necessity, have subsequently made a variety of adjustments.

## Capital structure issues

Over the course of the financial year, and following the year end, our three major shareholders (Napier Brown, Omnicane and, from the second quarter onwards, Downing LLP client funds) were repeatedly called upon to support the Group's finances through a mixture of injections of loan capital and new equity. The requirement arose not just from the poor results of the business and the extensive capital programme, but also from having acquired Brighter Foods in April 2017, without having clearly identified the source of funds which would satisfy the acquisition funding. The details of the injection of this funding and how and when it was injected were included in the shareholder circular issued on 18th July 2018 and those details are in note 23.

The longer-term funding solution which was implemented, and concluded in August 2018 following the financial year end, was the investment by our three major supportive shareholders in loan notes convertible into equity to replace the loan notes issued in respect of their last injection of up to £8.7 million. At the same time, to ensure that the minority shareholders were able to participate in a fundraising alongside the supportive major shareholders, an open offer was undertaken, which raised £1 million, at 5 pence per share, completed in August 2018. This financial restructuring was approved at the general meeting of shareholders held in London in August 2018.

Although the Board believes the Group's level of debt outstanding remains higher than a business such as Real Good Food should have, given its business model, the presence of bank debt within the Group is now restricted to asset backed finance with J F Renshaw and R&W Scott, and the invoice discount facility; today there is no bank term loan outstanding. At the same time, the Group's balance sheet retains a significant tangible asset base, goodwill that has been written down to realistic levels, and net assets significantly in excess of the Group's current stock market capitalisation. This is an important measure in establishing the Group's financial worth in future.

The Board is confident therefore that these steps, in combination with a variety of other corporate initiatives including the recently announced disposal of Haydens Bakery, have now established a solid financial footing from which the remaining constituent businesses of the Group are able to flourish.

### Board changes

During the financial year, there were a number of Board changes, with further changes since the year end. On 1 August 2017, Peter Salter (Non-Executive Director) resigned and Pieter Totté (Executive Chairman) and Dave Newman (Finance Director and Company Secretary) resigned on 7 August 2017. There was no compensation for loss of office to these Directors.

The Board was strengthened by the appointment of three new Directors. Judith MacKenzie (non-independent Non-Executive Director from one of our three major shareholders, Downing LLP) was appointed on 21 July 2017 and Hugh CL Cawley (independent Non-Executive Director) joined on 7 August 2017. Harveen Rai was appointed as Finance Director and Company Secretary on 7 August 2017. On 8 August 2017 Christopher Thomas was appointed as Chief Executive (from Non-Executive Director) and Pat Ridgwell assumed the post of Interim Non-Executive Chairman (from Deputy Chairman).

These changes were made to improve the independence and corporate governance structure of the Board and to strengthen further the strategic and turnaround expertise for the Group in short order. In the light of the previous failings, the Board subsequently commissioned a full independent review of the Group's financial processes and procedures, corporate governance and controls to be carried out by specialists from Ernst & Young. This has been completed and the recommendations are in the process of being implemented in full.

On 1 January 2018, Hugh CL Cawley was appointed Chief Executive, as Christopher Thomas stood down from the position to become Non-executive Deputy Chairman. Following the year end, we announced the appointments of, and are delighted to welcome to the Board as independent Non-Executive Directors, Mike Holt (also as Chair of the Audit & Risk Committee) and Steve Dawson. We are confident that their experience and fresh perspectives will add real value to the Board.

We have now completed the major planned changes to the Board's composition with a more appropriate mix of independent and non-independent Directors as well as Executives and Non-Executives.

### Operating performance and outlook

Over the year and post year-end, the Board has dealt with a number of other challenges facing the Group, over and above the funding situation, such that the performance of, and prospects for, what is now a smaller and more focused Group, have improved considerably. The substantial investment in central cost has largely been unwound, for example, with the central headcount reduced from 47 to 12 as at the date of signing these accounts. This has reduced the central cost base by an annualised £2.8m before reinvesting a proportion of the savings to ensure the divisions have directly replaced as required the roles previously provided by Head Office.

Each business has now set its own objective and its strategy, defined what resources it requires to deliver those and then is shaping the organisation of its people accordingly. We have corporately learnt more about our own businesses, their strengths and weaknesses, and continue to do so, with the assistance of external perspectives where required.

We are very conscious, particularly following the shock of last year's poor Christmas trading period, that we cannot be complacent and must recognise the competitive pressures which are a relatively new feature for some of our businesses. At the moment, underlying trading is in line with our modest expectations for the year. The Christmas trading period remains a critically important one for Renshaw especially. Having had a year where we incurred significant one-off financial costs (principally significant items and impairments) our intention in the future is to report a far more straightforward Income Statement, thus enabling investors to value the Group more easily using standard metrics.

'So far so good' therefore aptly describes progress to date in this new financial year. The operational management teams and the employees of the Group have endured considerable challenges, as have other stakeholders. As is the nature of any turnaround, the pain comes before any benefit and we thank all our stakeholders for their patience and unstinting support thus far.

# Strategic Review

## Group strategy

The Board's strategy has been to implement a turnaround plan for the Group by focusing on its core assets. Phase 1 of the plan has broadly been delivered (disposals, refinancing, cost reductions, normalised accounting policies). We are now moving onto Phase 2 to improve the profitability and cash generation of the core assets and place the Group in a stronger position to deliver shareholder value.

A basic tenet of the strategy required to deliver our objectives is to work appropriately with the management of each and every business to improve its performance, thus increasing the return on the considerable investment that has been made in recent years and thereby also increasing the inherent value of each business. Some of the businesses in the Group are further developed along that track than others.

Mindful that the Group has suffered historically from spreading its resources too thinly, the Board recognises that where the net value to shareholders of a business currently within the Group is demonstrably greater were it to be sold in the short term (as opposed to retained and turned around), then it must be considered a candidate for sale. Garrett Ingredients was an example just after the period under review. The recent disposal of Haydens also resulted from that recognition. As a result, the continuing material divisions of the Group comprise Food Ingredients and Cake Decoration, both of which are clearly profitable divisions.

## Summary

The Group now principally comprises two excellent divisions, with clear objectives and strategies to achieve those objectives. We believe we have the leadership, the senior management and the resources capable of delivering the marked uplift in performance required of each of them, together with the solid financial foundation from which to do so. Indeed, there are signs of improvement already apparent in each business.

There have been marked strides made in the standards of corporate governance throughout and there is much firmer control over costs and capital. This is a significant improvement on the situation of just a year ago. We are grateful for the continued support of all the stakeholders who have shown confidence in the Group during some historically challenging times and we will strive to keep the positive momentum which has been built of late. The Board now has good reason to be more confident, but far from complacent, in the future prospects for the Company.



# Marketplace Review

The Group operated in three main divisions: Cake Decoration, Food Ingredients and Premium Bakery. Our brief perspective on the major trends in each division follows.



## Cake Decoration

The Group's Cake Decoration division comprises; Renshaw in the UK, USA and Europe and Rainbow Dust Colours.

The love of homebaking in the UK continues, fuelled by the continuing success of TV programmes such as the Great British Bake Off, the final of which in the autumn of 2017 was watched by a live audience of some 7.2 million people. Nine out of ten consumers shop in the homebaking market, a market which is currently worth some £705 million at RSP (retail selling price)\*. Within that, cake decorating continues to grow and the visual appeal of the end product is fuelled by the ever-increasing use of social media. Renshaw's launch of its new Simply Create™ brand recognises and aims to satisfy the growing need that the home baker has to create more ambitious and visually appealing cakes, but using products specifically designed to make the creative process as easy as possible.



## Food Ingredients

The Group's Food Ingredients division comprises; Brighter Foods, R&W Scott and Garrett Ingredients.\*\*

One of the key trends in the huge food ingredients sector is towards an ever-greater emphasis on healthy eating. Health considerations are now prevalent throughout the food chain, and have been for many years, with something like 29% of all in-home food purchases cited as being driven by health considerations\*. Brighter Foods is especially well positioned to benefit from consumer choice migrating from confectionery to healthy snack bars; the whole of this latter market is said now to be worth over £360 million at RSP



## Premium Bakery

The Group's Premium Bakery division comprises; Haydens Bakery\*\* and Chantilly Patisserie.

The total market for cakes and pastries in the UK (worth some £2.4 billion at RSP – 52 weeks to 20th May 2018\*) is growing at 3.7% per annum, with Premium Bakery contributing positively across all sectors. Within that market, Haydens operates in six sectors of which yum yums, croissants, Danish pastries, sweet buns and pies are all growing in both volume and value. From the Multiples through to the Discounters, retailers are enjoying growth across these premium own-label categories.

\* Kantar data

\*\* Business disposed of post year-end (see note 34)

# Divisional Business Review

## Real Good Food

### Cake Decoration

#### 2017/18 Performance

This year's result for Cake Decoration was disappointing in one of the key businesses of the Group. Significant delays to the commissioning of new manufacturing equipment aimed at introducing new products, formats and a new brand, a delay in recovering commodity cost increases during the key sales period, and a significant increase in competitive intensity, particularly in the retail sector, were the most significant factors contributing to the performance.

A transformational capital investment programme started during the year, with a new line to produce convenience formats of Renshaw's core product, rolled icing, and a new soft icings plant; one line is now fully operational and the other is in the final stages of commissioning.

Consumer demand in the Cake Decoration category in the UK was largely flat, although consumer shopping behaviour continued to change, with footfall moving from Grocery Multiples to Discount & Bargain store channels where the range of homebaking products is more limited. During the key trading season for sweet homebaking, competitive intensity increased considerably resulting in lower selling prices across brand and own-label products. A delay in recovering commodity cost increases in sugar and dairy products further contributed to reduced margins.

Outside the UK, the establishment of a USA-based warehouse to fulfil orders for North America was completed, leading to a one-off reduction of stock within the supply chain but consumer demand remains strong. A review of the order fulfilment model for Continental Europe customers was initiated with the aim of ensuring the division is easier to do business with and the Europe-based personnel are focused on business development.

A product rebranding and relaunch exercise at Rainbow Dust was initiated with some delays experienced due to the scale and technical complexity of ensuring product compliance, particularly for export markets. The Preston manufacturing site made significant strides to ensuring it has the potential to distribute products into new channels and territories, achieving both FDA and BRC accreditations.

#### Forward plans

The business is implementing plans focused on streamlining processes and resources to ensure better coordination of activity across the Cake Decoration operating units and executing a growth strategy focused on increased supply of everyday usage and convenience products under its own and retailer brands, in the UK and in selected export markets.

The professional cake decorating community already holds Renshaw products in high esteem – we value and cherish that hard-won respect. The launch of the Simply Create™ brand represents a real opportunity for Renshaw to encourage novice consumers to practise and expand their cake decorating skills. The range includes high-quality frostings in an easy-to-use tub, tasty icings in a carton and pourable icings, and it provides an easy excuse to create and enjoy a celebration cake, with professional-looking results. With the challenges over the past year, we held back the planned national launch of Simply Create™. During the current year, Simply Create™ has been listed in Booths in the north-west of England and throughout the Co-op estate, with encouraging early results; wider national distribution is planned from early next year.

In business-to-business, the division sees significant opportunities to leverage its long-standing industry knowledge and expertise to help cake manufacturers, for example, by delivering better value core ingredients and some new innovative products, capitalising on current cake decorating trends.

Export growth is focused on North America where the division has identified significant potential to grow sales, and a plan has been developed which will see an increase in sales resource, a higher profile presence in the market and the acquisition of new customers.

Following its review of the order fulfilment model for Europe, the business has closed its Brussels warehouse and reverted to supplying product from the UK with no detriment to service levels. The Europe-based sales effort will now focus on existing and new business development.

Ensuring the supply of consistently high-quality product remains the key imperative for the division and, while it values the reputation it has and the accreditations achieved, it is implementing various initiatives to ensure product quality standards continue to improve and that it leads the industry in this respect.



12 Months to March	2018 £m	2017 £m
Revenue	<b>47.7</b>	47.0
EBITDA (adjusted)*	<b>2.6</b>	6.5
Operating profit	<b>0.5</b>	5.5
Operating profit %	<b>1.0%</b>	11.7%

\*See note 5 for reconciliation

# Divisional Business Review

## Real Good Food

### Food Ingredients

#### 2017/18 Performance

The Food Ingredients division has undergone a fundamental transformation during the past two years, with the exciting, value-adding acquisition of 84.33% of Brighter Foods at the start of the financial year. Conversely, shortly after the end of the period, in line with our current strategy, we divested Garrett Ingredients, recognising that its net value to shareholders was better realised from a disposal than from continued ownership (note 34). The trading conditions faced by Garrett Ingredients in the year,

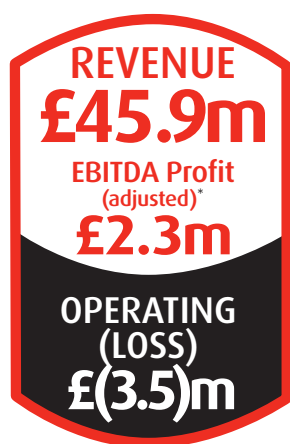
resulted in recognising an impairment of £3.5 million (see note 16). During the year to March 2018, there was also considerable investment in R&W Scott, where the acquisition of one multiple retailer's jam business added significant volume, though at lower than normal margins for this business. Brighter Foods performed well during the period and helped move the division into positive EBITDA (adjusted), although commodity prices were unhelpful for the trading business and for R&W Scott for much of the year.

#### Forward plans

The acquisition of Brighter Foods transformed the scale and boosted the profitability of this division, establishing an important presence in the added value health sector. The performance of R&W Scott in the year was disappointing, notwithstanding it secured a major jam contract, and the returns from the investment made in plant and equipment did not start to show through until after the close of the year. The origins of the sugar trading dispute impacted the profitability of the division markedly during the year, particularly at Garrett Ingredients, and the resulting switch of suppliers helped margin recovery in the second half of the year. The dispute regarding the non-supply contracted sugar remains unresolved. No separate disclosure is made, as to do so could prejudice the position of the Company.

The acquisition of Brighter Foods has provided the Group with a robust and stable platform in the growing health food & wellness market.

Brighter Foods, acquired in April 2017, creates and manufactures snack bars for the healthy snacking market from its factories in Tywyn, Gwynedd in Mid Wales. This multi-award-winning company produces snacks which are targeted at areas such as diet control, gluten free, lactose free, low or no added sugar, sports nutrition, organic and fair trade. As well as manufacturing partner-branded products, Brighter Foods has its own healthier brands such as Wild Trail, which is stocked in major retailers and health food stores.



12 Months to March	2018 £m	2017** £m
Revenue	<b>45.9</b>	26.9
EBITDA (adjusted)* profit/(loss)	<b>2.3</b>	(1.4)
Operating (loss)	<b>(3.5)</b>	(5.6)
Operating (loss) %	<b>(7.6)%</b>	(20.8)%

\*See note 5 for reconciliation.

\*\*2017 restated for continuing business only.

# Real Good Food

## Premium Bakery

### 2017/18 Performance

It is difficult to over-emphasise the disruptive effect of the extensive investment programme at Haydens during the year. As a result of the capital investment, however, the factory in Devizes now has significant extra capacity (one of the important features that made the business attractive to its recent acquirer) and is delivering enviable service levels. This has already allowed the business to attract Tesco and Sainsburys to join the growing customer list, utilising the equipment installed as part of the investment. Commodity prices were also very unhelpful over the year, with the cost of butter remaining at historically high levels and our commercial agreements at that time not tailored to recover any of the added cost. Projects are underway to improve the levels of waste and overall efficiency, seeking to extract maximum return from the new investment. Recruitment of high-calibre

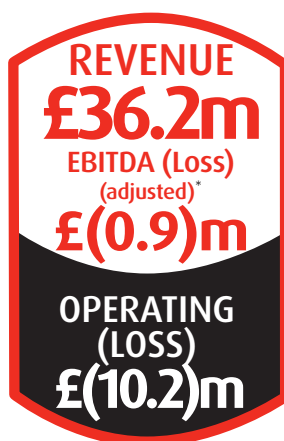
staff across the industry remains a key differentiator and with a project that also invested in staff and facilities, we have increased the attractiveness of the business for the future.

In the event, the planned move of the Chantilly Patisserie business to new premises was shelved, since, while it was of course intuitively right to expand and grow, given the relative scarcity of cash last year, the investment case for doing so simply could not be made; the business remains based in premises where growth will potentially be capacity-constrained, although this is not currently an issue.

The challenging trading conditions resulted in an impairment of fixed assets of £6.0 million for Haydens Bakeries (note 18), and an impairment charge to goodwill of £1.0 million for Chantilly Patisserie (note 16).

### Forward plans

The Haydens business was sold in early September 2018, to Bakkavor Limited for £12 million, leaving Chantilly Patisserie as the only business in our Premium Bakery category (note 34). Commodity prices will continue to be a challenge, most particularly in the higher end of the market in which Chantilly operates but with excellent products and a strong pipeline of new product innovations, Chantilly's ability to stand alone in serving its foodservice customer base is well-established.



12 Months to March	2018 £m	2017 £m
Revenue	36.2	33.9
EBITDA (adjusted)* profit/(loss)	(0.9)	1.2
Operating profit/(loss)	(10.2)	0.1
Operating profit/(loss) %	(28.2)%	0.3%

\*See note 5 for reconciliation

# Finance Review

## Overview

During the year to 31 March 2018, the finance team, supported by the Board, senior management, auditors, financial advisors and external consultants, carried out comprehensive reviews of financial controls and corporate governance.

The findings of the reviews set into motion a number of activities to improve financial controls and governance with all recommendations in the process of being implemented.

A number of accounting processes and procedures were reviewed which resulted in a number of negative adjustments within EBITDA (adjusted), and also profit before tax, and full reviews of all investments in light of projected future divisional performance saw material impairments of assets and goodwill, too.

## Revenue

Group revenue for the 12 months ending 31 March 2018 was £129.8 million (2017: £107.7 million), an increase of 20% on the revenue to 31 March 2017. This results from growth in the Food Ingredients business of £19.1 million, in Premium Bakery of £2.3 million and a near-flat performance in Cake Decoration where sales YOY increased by £0.7 million. The increase in the Food Ingredients division was driven mainly by the acquisition of Brighter Foods in April 2017, the revenue from Brighter amounting to £16.1 million in the year. Premium Bakery also saw revenue growth following significant investment in the year in both the yum yum and tarts categories.

## Profit measure on operations

Gross profit on the continuing businesses for the overall Group was £24.9 million (2017: £26.3 million). At 14.9%, the delivered margin in the year was below the prior year of 19.9%. This margin has been impacted by several factors including unfavourable commodity price increases, later than expected and limited price recovery, currency impact, and changes in accounting estimations within stock.

The operating loss in the year of £23.2 million is reported after an impairment charge of £10.5 million, depreciation and amortisation charge of £5.2 million and significant costs of £5.0 million. The impairment review resulted in an impairment of goodwill of £4.5 million (see note 16), and impairment of fixed assets of £6.0 million (see note 18).

This has resulted in a statutory loss before tax of £25.2 million (2017: loss of £6.2 million), giving a basic loss per share of 33.10 pence against a loss per share of 8.18 pence in 2017 (see note 15).

## Cashflow and net debt

The significant capital investments, financial impact of poor governance and other factors affecting the operating loss described above, led to insufficient working capital. Shares issued in the year and additional loans to 31 March 2018 amounted to £24.2 million, of which £13.0 million of cash was used in investing activities and £6.6 million of cash was used in operating activities.

## Refinancing and additional funds

During the year, and since 31 March 2018, significant funds were injected into the business by the major shareholders to support the working capital needs of the business. Agreed investor loans and equity placing total £27.0 million to the year end, and a further £9.7 million was agreed after the year end, of which £1.0 million was raised through the Open Offer in August 2018. The Group further increased its borrowings under hire purchase to £6.4 million and continued to utilise the invoice discounting facility. Further details of borrowings can be found in note 23. The total of borrowings saw interest charges in the year totalling £1.6 million.

## Pension scheme

The Group offers a defined contribution scheme for all current employees that is funded on a monthly basis. In addition, the Company operates a defined benefit scheme that was closed to new members in 2000.

The defined benefit scheme is the Napier Brown Retirement Pension Plan (the Plan). The IAS 19 pension schemes valuation reported a gross deficit at 31 March 2018 of £6.4 million (2017: £5.9 million). The Plan assets decreased by £0.4 million to £13.5 million (2017: £13.9 million) and the Plan liabilities are £19.9 million compared to £19.8 million at 31 March 2017. See note 31 for further details.

## Dividend

The Directors, taking into account the Group's performance and cash resources, do not recommend the payment of a final dividend for the year ended 31 March 2018 (2017: £28k).

## Outlook

Following a difficult year, current trading is in line with our modest expectations for the year. The Group remains focused on continuing to improve its results and reduce net debt, as well as its corporate governance and internal controls to support the business strategy and increase shareholder value and returns.

## Results of continuing operations

	31 March 2018 £'000s	31 March 2017 £'000s
Revenue	<b>129,842</b>	107,736
Gross profit	<b>24,902</b>	26,325
Delivered margin	<b>19,443</b>	21,410
Delivered margin %	<b>14.9%</b>	19.9%
EBITDA (adjusted) (loss)	<b>(2,566)</b>	1,391
Operating loss	<b>(23,247)</b>	(5,593)
Operating loss %	<b>(17.9)%</b>	(5.2)%
Loss before tax	<b>(25,167)</b>	(6,236)

# Key Performance Indicators

The Board monitors a range of financial and non-financial key performance indicators, reported on a regular basis, to measure the Group's performance. The key performance indicators, all based on continuing operations, are set out below. The Board intends to review these key performance indicators in the coming year with a greater emphasis on free cash flow generation.

## REVENUE GROWTH

Revenue is calculated for continuing business and is from external sources only.

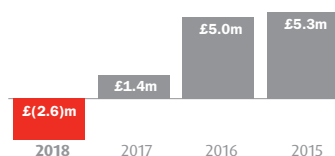


## COMMENT

Revenue in the year has increased by 20%, driven primarily by Premium Bakery and Food Ingredients (Brighter Foods acquisition £16.1million).

## EBITDA (ADJUSTED)

EBITDA (adjusted) is defined as earnings before significant items, interest, tax depreciation and amortisation.



EBITDA (adjusted) loss of £2.6 million due to commodity price increases, changes in accounting estimations and increased overhead costs.

## NET DEBT

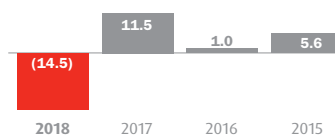
Net debt is the total Group borrowings less cash at bank.



Net debt in the year has increased to £37.8 million; these funds were required to fund the Group's investment plan, its poor divisional performance and the significant one-off costs incurred in the year.

## DEBT COVER

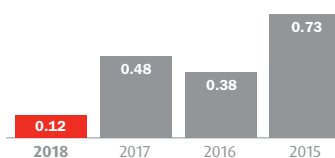
Debt cover is calculated by dividing total net debt by continuing EBITDA (adjusted).



As a result of increased net debt and EBITDA (adjusted) losses incurred in the year net debt: EBITDA (adjusted) cover stands at (14.5)

## ACCIDENT FREQUENCY RATE

The accident frequency rate is the number of RIDDOR accidents spread across the hours worked.



A higher number denotes a higher risk.

2018 2017 2016 2015

J F Renshaw Limited	1.54	1.08	0.97	1.45
Haydens Bakery Limited	0.00	0.00	0.00	0.36
Brighter Foods Limited	0.00	-	-	-
R&W Scott Limited	0.00	0.98	0.52	1.70

# Corporate Social Responsibility

Real Good Food plc recognises its responsibility to, and how much it benefits from, the communities of which it is a part, and embracing its corporate social responsibility is therefore an integral part of building long term sustainable businesses in our divisions. Notwithstanding that it was a difficult year for the Group, we continued to play our part with our stakeholders and in our communities.

Each business has a Corporate Social Responsibility Plan that was built around the Group's Responsible Business Framework and is actively engaged in its fulfilment.

The Responsible Business Framework that was in place during 2016 has three key objectives:

- To be the employer of choice in its local community.
- To be actively involved within our communities and to build a reputation for social responsibility.
- To continue to strengthen our reputation for respect, integrity and innovation with our customers, suppliers, employees and partners.

The following are examples which help illustrate the type of activity that our businesses are engaged in against those objectives.

During 2017/18, Renshaw raised some £3,800 for the local charity, KIND – which helps children and their families cope with the effects of disadvantage and poverty – through sponsored activities such as bike rides, cake sales and raffles. The business also supplied product to KIND for open days, and to use in their work with local children, and supported another local charity, The Whitechapel Centre – a homelessness and housing charity – through the winter, supplying food and clothes donated by employees for the homeless in Liverpool. Renshaw also operate a payroll donation scheme to Barnados, through which last year some £4,700 was donated, bringing the total so far donated to over £35,000.

Brighter Foods are also active in their local community; the company helped the local council to promote careers in Science, Technology and Engineering, for example, through attendance at Coleg Meirion Dwyfor, Dolgellau in June 2018. They also sponsor Monmouth RFC, sponsored the 2017 Wales Start Up Awards and contributed to the cost of the Shed Egryn project, a community facility in the village of Llanegryn, which allows members of the community to come together, share skills, have access to a workshop and other shared facilities.

In the Premium Bakery division, Haydens' significant investment programme allowed the business to invest in improved facilities for employees on site, to increase the number of apprenticeships and to provide site-wide training for all employees. As well as frequently providing produce for local charitable events, there were also monetary donations to local schools, Air Ambulance and the British Legion. Chantilly Patisserie, located in Paignton, donates fine patisserie products to local charities, schools and hospitals and is a member of Taste for the West, an organisation that promotes food businesses in the South West region.

## Health and safety

### Commentary 2017/18

- Haydens continued its strong record of performance, having not had a RIDDOR accident since November 2015. With circa 500 people in the business and a significant capital expansion project, this is a major achievement.
- Brighter Foods has performed well with no RIDDOR incidents reported.
- Renshaw experienced a number of accidents and incidents during the year and this has so far continued into 2018.
- R&W Scott appointed a permanent HSE Advisor following a period of interim support.
- Having established an appropriate stand-alone HSE infrastructure within each business, the Group Head of HSE left the business after the end of the year under review.

### 2018/19 Priorities

- Maintaining and improving legal compliance and health and safety performance where businesses look to stand alone – an appropriate periodic audit process will be implemented to ensure improving standards in this important area.
- Implementing corporate reporting such that the individual businesses report in common format and performance is reviewed at every Board meeting.
- Targeting a reduction in the number of incidents in Renshaw's operational HSE performance.



# Risk Management

The risks the Group faces relate to events, and depend on circumstances, that may or may not occur in the future. The Board recognises that risks and uncertainties could affect the delivery of its strategic objectives. The past year has seen significant improvements within the Group's governance and with the recent appointment of a new independent Chair of the Audit Committee, the development of a risk management framework will be a key focus area. The principal risks of the Group as a whole are set out below, in no particular order of priority.

## Demand for products & market share

Many factors affect the level of consumer spending in the food industry and consumer preferences and spending habits change through factors that are difficult to predict, including lifestyle, nutritional and health considerations. The Group has expertise in the categories within which it operates and builds on shopping insights to predict a change in trends and develop new products for changing habits. The recent acquisition of Brighter Foods is an example of the Group's establishing an important presence in the added value health sector.

The Group may experience increased competition from existing or new companies especially at a time when the major retailers are experiencing difficult trading conditions. The Group's sales fluctuate seasonally with products sold during Christmas and Easter accounting for a significant portion of the Group's overall revenue. The Group maintains close relationships with its existing customers base and continues to develop research-led innovative products. To reduce dependency on the UK further, the Group has focused on growing its market share in selected export markets.

## Macroeconomic environment & Brexit

The Group has no control over fluctuations in the longer-term price and availability of ingredients and there remains uncertainty over the exit from the EU. The Group manages the impact of commodity price inflation and foreign exchange through natural hedging.

## Regulations and safety

Food safety, environmental protection and employee health and safety are constantly evolving areas of responsibility for the business, and subject to increasing regulation at home and abroad. Any incident could have an impact on the Group's reputation and customer confidence. The individual businesses of the Group have responsibility for ensuring that safe standards are maintained.

## Pension liabilities

The Group operates a now closed defined benefit pension scheme which exposes the Group to changes in investment returns, discount rates, life expectancy and inflation. Although the Group currently expects to be able to meet its obligations under the pension scheme, the funding of the scheme exposes the Group to further risks.

## Working capital

In order for the Group to have sufficient working capital for its needs, the Group has been dependent upon significant financial support from its major investors, the disposal of businesses, the potential Sale & Leaseback of freehold properties and central profit improvement initiatives. The Board regularly monitors the Group's cash position and, since the year end, has disposed of two businesses, renegotiated the terms of the investor loans, secured further funding and reduced the central cost base. The Directors, after due consideration, have a reasonable expectation that the company and the Group have adequate resources to continue in operational existence for the next 12 months.

## Regulatory & Legal

The company has previously acknowledged failings in corporate governance and specifically its related party disclosures. These failings could perhaps result in further action from the relevant regulatory authorities. The company is currently not aware of any regulatory investigations. The Board has taken significant steps to improve the corporate governance of the company and a review was carried out by Ernst & Young with the resulting recommendations in the process of being implemented.

This report was approved by the Board on 28 September 2018 and is signed on its behalf by

**Hugh CL Cawley**  
Chief Executive  
Officer

**Harveen Rai**  
Finance Director

# Board of Directors

## **Patrick Ridgwell** Interim Non-Executive Chairman

Assumed the role of Interim Non-Executive Chairman 8 August 2017

Pat has extensive knowledge of the sugar industry and other food sectors having acquired and developed a number of food businesses during his career. He joined Napier Brown and Company in 1964 and became Managing Director in 1972 following its acquisition of his family interests in 1970. He is a director of Napier Brown Ingredients Limited.

## **Christopher Thomas** Non-Executive Deputy Chairman

Assumed the role of Non-Executive Deputy Chairman on 1 January 2018, on standing down as Chief Executive

Chris qualified as a Chartered Accountant in 1969. In 1973 he joined Breakmate, a vending business, which was admitted to the Unlisted Securities Market in 1984. He joined the Napier Brown Foods Group in 1992 as Group Finance Director and was involved in the day-to-day operations of the Group before becoming Chief Executive Officer of Napier Brown Foods.

## **Hugh C L Cawley** Chief Executive Officer

Appointed Chief Executive on 1 January 2018, having been a Non-Executive Director since joining the Board on 7 August 2017

Hugh has extensive public company experience with a particular focus on helping businesses facing a major strategic challenge or undergoing significant corporate change. After working for Procter & Gamble and ICI plc in the early part of his career, his more recent public company executive roles included spells with S Daniels PLC, Dawson Holdings PLC, office2office plc and, most recently, Driver Group plc. Hugh is also a founding member of the advisory board of the Confucius Institute for Business at the University of Leeds.

## **Harveen Rai** Finance Director and Company Secretary

Appointed 7 August 2017

Harveen has 20 years' experience, predominately in fast-moving consumer goods listed companies. She was previously Chief Financial Officer at Arzyta UK Holdings Limited ("Arzyta"), where she was involved in implementing and streamlining the processes and controls of the company. During her time at Arzyta, Harveen was also involved in developing and strengthening the regional finance teams to grow in line with the needs of the business. Prior to her time at Arzyta, Harveen spent over ten years working at LSG Sky Chefs, a global airline catering company which is owned by Lufthansa. Harveen is a member of the Chartered Institute of Management Accountants.

## **Jacques d'Unienville** Non-Executive Director

Jacques has nearly 20 years' experience of sugar and related industries (independent power production, waste and environment management and renewable energy) in France, the Seychelles and Mauritius. He is the CEO of Omnicane and the chairperson of Omnicane Thermal Energy Operations (La Baraque) Limited and Omnicane Thermal Energy Operations (St. Aubin) Limited. He has served as president of the Mauritius Sugar Syndicate and as president of the Mauritius Sugar Producers' Association.

## **Judith A Mackenzie** Non-Executive Director

Appointed 21 July 2017

Judith joined Downing LLP in October 2009 and is Partner and Head of Public Equity. Previously she was a partner at Acuity Capital, a buy-out from Electra Private Equity, where Judith managed small company assets. Prior to Acuity, she spent seven years with Aberdeen Asset Management Growth Capital as co-Fund Manager of the five Aberdeen VCTs, focusing on technology and media investments in both the public and private arenas. Judith has held a number of public and private directorships.

## **Steve Dawson** Non-Executive Director

Appointed 19 September 2018

Steve has extensive experience of the food and beverage industry, both in the UK and in North America, from both advising clients on how to improve and build their businesses and from practising such skills himself. He is currently the Managing Director and founder of BrandGrowth LLC, a consultancy focused on advising food and beverage brands on how to achieve their growth strategies. From August 2016 to May 2018, Steve was Interim CEO of Bahlsen North America, stabilising the business and setting it well on the path for successful growth. Prior to founding BrandGrowth, Steve had enjoyed success as the CEO of Walkers Shortbread Inc for nearly nine years and had spent eight years as Managing Director of Food From Britain North America.

## **Michael J Holt** Non-Executive Director

Appointed 7 August 2018

Mike has significant public company board and financial experience. He was CFO of Low & Bonar PLC, an international performance materials group, between 2010 and 2017. Prior to that, he was CFO of Vp plc, the specialist equipment rental group, for over six years from 2004. Prior to joining Vp, Mike held senior financial positions within Rolls-Royce Group in the UK, USA and Hong Kong. He is a fellow of The Institute of Chartered Accountants in England and Wales and a member of The Association of Corporate Treasurers. Mike qualified as a Chartered Accountant with Arthur Andersen. Mike is also a non-executive director, and chair of the audit and risk committee, of Schroders Asian Total Return Investment Trust Company plc.

## **Pieter Totté** Executive Chairman – Resigned 7 August 2017

## **Peter Salter** Non-Executive Director – Resigned 7 August 2017

## **David Newman** Finance Director and Company Secretary – Resigned 7 August 2017

Resignation and appointment dates as registered at Companies House

# Report of the Directors

The Directors present their report and the audited financial statements for the 12-month period ended 31 March 2018.

## Corporate governance

The Board is clear that the standards of corporate governance and reporting have historically been below those which investors might reasonably expect and is committed to rectifying this important aspect of operations and disclosure. The Board appointed specialist external advisors from Ernst & Young to conduct a full review of the Company's corporate governance and financial reporting procedures, since which time their recommendations are being implemented.

The Directors are committed to high standards of corporate governance and acknowledge the importance of a good corporate governance framework. The Board has chosen to apply the Quoted Companies Alliances "QCA" corporate governance code for small and mid-sized quoted companies 2018 and is actively seeking to be compliant.

A number of changes were made to improve the independence and corporate governance structure of the Board.

On 21 July 2017, the Board was strengthened by the appointment of Judith MacKenzie (non-independent Non-Executive Director) and on 7 August 2017 of Hugh CL Cawley (independent Non-Executive Director). On 8 August 2017, Christopher Thomas was appointed as Executive Director (from Non-Executive) and Pat Ridgwell assumed the post of Interim Non-Executive Chairman (from Deputy Chairman). Harveen Rai was appointed as Finance Director on 7 August 2017. On 7 August 2017, Peter Salter resigned as Non-Executive Director, Pieter Totté resigned as Executive Chairman of the Company and David Newman resigned as Finance Director. Further changes followed during the year with Hugh CL Cawley being appointed as Executive Director on 1 January 2018 and Chris Thomas became Deputy Chairman. After the year end two independent Non-Executive Directors, Mike Holt (also Chair of the Audit & Risk Committee) and Steve Dawson were appointed.

The Company also changed key advisors which saw BDO LLP appointed as the Company's auditor and Walker

Morris as the Company's principal solicitors.

The Board meets once per month and reviews the performance of the business at each meeting. The Board has delegated certain responsibilities to the Audit and Remuneration Committees, details of which can be found on pages 19 and 20.

## Statement of Directors' responsibilities

The statutory Directors are responsible for preparing the Strategic Report, the Report of the Directors, other information included in the Annual 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 the statutory Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards "IFRSs" as adopted by the EU and applicable law.

Under company law, the statutory 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 the Group and of the profit or loss of the Group 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 accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company and Group's transactions and disclose with reasonable accuracy at any time the financial position of

the Company and Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

They are further responsible for ensuring that the Strategic Report, the Report of the Directors and other information included in the Annual Report and Financial Statements is prepared in accordance with applicable law in the United Kingdom.

The maintenance and integrity of the Real Good Food plc website is the responsibility of the Directors; the work carried out by the auditor does not involve the consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred in the accounts since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the accounts and the other information included in annual reports may differ from legislation in other jurisdictions.

## Going concern

The Directors have considered the Group's business activities together with the factors likely to affect its planned future performance. The forecasts, agreed with the businesses, consider reasonable possible changes in trading performance and these assumptions have been projected and shared with the Company's advisors.

The Group was in compliance with its banking covenant tests at 31 March 2018 and 30 June 2018 with the term loan subsequently settled in full in September 2018.

The principal shareholders of the Group have shown considerable support for the working capital requirements and, having carefully considered the liquidity of the Company in line with the current strategy and future performance, the Directors have a reasonable expectation that the Company and

# Report of the Directors

the Group have adequate resources to continue in operational existence for the next 12 months and therefore continue to adopt the going concern basis in preparing the consolidated financial statements.

## Provision of information to auditor

Each person who is a Director at the time when this Report of the Directors is approved has confirmed that:

- As far as that Director is aware, there is no relevant audit information of which the Group's auditor is unaware, and
- That each Director has taken all the steps that ought to have been taken as a Director in order to be aware of any information needed by the Group's auditor in connection with preparing its report and to establish that the Group's auditor is aware of that information.

## Principal continuing activities

The principal activities of the Group are the sourcing, manufacture and distribution of food to the retail, foodservice and industrial sectors.

## Business review and future developments

These topics are covered in detail within the Strategic Review, Divisional Reviews and Finance Director's report on pages 4-12.

## Non-current assets

Details of changes in non-current assets are given in notes 16-20 to the financial statements.

## Directors

During the year, a number of changes took place to strengthen the Board. Pieter Totté, Peter Salter and David Newman resigned their positions as Directors of the Company and Harveen Rai, Judith Mackenzie and Hugh CL Cawley were appointed to the Board. After the year end, the Board was pleased to announce the appointment of Mike Holt as Independent Non Executive Director and Chair of the Audit & Risk Committee and the appointment of Steve Dawson as Independent Non-Executive Director; details are given on page 16.

## Substantial interests

Downing LLP subscribed for ordinary shares representing 10% of the share capital in July 2017 at a price of 35 pence per share, raising a further

£2.75million. Admission of the additional 7,844,924 new ordinary shares occurred in July 2017.

There were the following substantial interests (3% or more) in the Company's ordinary share capital:

<b>31 March 2018</b>	<b>% Holding in ordinary share capital</b>
Napier Brown Ingredients Limited	28.2%
Omnican International Investors Limited	26.3%
Downing LLP	10.0%

Following the Open Offer of £1.0m, the admission of 20,115,190 new ordinary shares on 17 August 2018 resulted in a change of the substantial holdings as reflected in the table below. This table does not reflect the possibility of the conversion of Convertible Loan Notes in the name of the three major shareholders, Napier Brown, Omnican and Downing, details of which are provided in note 23.

<b>20 August 2018</b>	<b>% Holding in ordinary share capital</b>
Napier Brown Ingredients Limited	22.5%
Omnican International Investors Limited	21.0%
Downing LLP	8.0%
Mr J & Mrs S O'Driscoll	5.6%

## Directors' indemnities

The Company has paid £22,880 (2017: £9,450) in respect of Directors' and Officers' Indemnity Insurance.

## Financial instruments

The Group's financial instruments comprised bank term loans and a revolving credit facility, hire purchase and finance leases, loan notes from the major shareholders, cash and liquid resources and various items arising directly from its operations, such as trade receivables and trade payables. The main purpose of these financial instruments is to finance the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The Group also has some currency exposure to its commodity purchases which is offset in part by foreign currency sales.

The Board reviews and agrees policies, which have remained substantially unchanged for the period under review, for managing these risks. Full details of the Group's financial assets and liabilities are set out in note 25 to the financial statements.

## Liquidity risk

Short term flexibility is available through existing bank facilities.

## Employee involvement

The Group aims to improve the performance of the organisation through the development of its employees. Their involvement is variously encouraged by means of team working, team briefings, consultative committees and working parties.

## Equal opportunities

The Group continues to embrace and champion the principles of equality of opportunity and diversity in all aspects of employment. During the year, our employment policies and procedures have been updated to ensure best practice continues to be adopted, and we continue to apply those principles to enable a workplace which is free from discrimination and where development opportunities are open to all. The Group also encourages an active approach to those who require additional support in order to achieve their potential.

During the year, the Group's first gender pay report was published, providing the baseline for future development plans and activities, particularly in terms of leadership. Through our Leadership Framework we look forward to creating the opportunities for developing greater diversity throughout our management structures in the future.

## Charitable and political donations

During the current financial period the Group made charitable donations of £3,237 (2017 : £3,689). No political donations were made during the current or previous financial period.

This report was approved by the Board on 28 September 2018 and is signed on its behalf by

**Hugh CL Cawley**  
Chief Executive Officer

**Harveen Rai**  
Finance Director

# Audit Committee Report

## Audit Committee Report

Up until 1 August 2017, the audit committee consisted of Peter Salter (chairman) and Christopher Thomas. Following Peter Salter's resignation on 1 August 2017, Hugh CL Cawley became chair of the Audit Committee on 7 August 2017. On 1 January 2018, Christopher Thomas assumed the role as Chairman, pending the appointment of an appropriately qualified independent Non-Executive Director. The Audit Committee met on three occasions during the year.

Since the appointment of Mike Holt to the Board on 7 August 2018, the Committee now comprises Mike Holt (as Chairman) and Christopher Thomas. Collectively, they have the skills and experience required to fully discharge their duties and Mike Holt, having been the Chief Financial Officer of Vp plc (2004-2010) and Low & Bonar PLC (2010-2017), meets the requirement of recent and relevant financial experience. The Committee is scheduled to meet formally twice a year with the auditor, in relation to the annual and interim accounts, but in addition, the Chairman of the Committee also maintains a close dialogue with them throughout the year to ensure they remain apprised of relevant events. Executive Directors are ordinarily present at Committee

meetings by invitation only, with the Finance Director ordinarily attending. The Committee's primary role is to ensure the integrity of the financial reporting and audit process and the maintenance of sound internal control and risk management systems. It is responsible for monitoring and reviewing:

- the integrity of the Group's financial statements and any formal announcements relating to its financial performance;
- the Group's internal financial controls and internal control and risk management systems;
- the effectiveness of the external audit process and making recommendations to the Board on the appointment, reappointment and removal of the external auditor;
- the policy on the engagement of the external auditor to supply non-audit services; and
- taking specific responsibility for certain key areas of risk management to support the Board's role in overseeing an enterprise-wide approach to risk identification, management and mitigation.

In light of the disclosures of the past year or so, a review of the effectiveness of the corporate governance and financial reporting

procedures was undertaken by Ernst & Young, and the effective operation of the Committee was encompassed within that review. The past year has seen significant improvements to the governance regime throughout the Group, through the implementation of the recommendations of the review, notably appointing two independent Non – Executive Directors to the Board, one of whom already chairs the Audit Committee, setting out matters reserved for the Board, improved reporting to the Board, financial accounting and reporting and strategic planning. The key measures yet to be implemented are internal control assurance and risk management in order to be compliant with the QCA's Code of Best Practice for small to medium companies.

The Audit Committee reviewed a wide range of financial reporting and related matters in respect of the Company's Annual Report prior to their consideration by the Board. Reports highlighting key accounting matters and significant judgements were also received from BDO LLP in respect of the year end financial statements and discussed by the Committee. In particular, these included the significant judgement areas of the impairment of goodwill and the going concern basis of accounting.

Description Of Risk	Overview of Risk	Company response
Asset Impairment	The Group has £70.0 million of goodwill, relating to excess of fair value to consideration paid for acquisitions, and £30.1 million of property, plant and equipment. The carrying value of goodwill is reviewed at least annually to check that it is not in excess of its recoverable amount. The value of property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.	Cash flow projections for each Cash Generating Unit "CGU" have been prepared and reviewed, which take into account current market conditions and the long-term growth expectations for the key markets served by the CGUs. A sensitivity analysis was also applied to stress test the assumptions and future economic value of assets. These resulted in the impairment of £4.5m of goodwill and £6.0m of property, plant and equipment carried forward from previous years. The Audit Committee discussed the underlying assumptions, and discount rates used, with both management and BDO LLP. Following discussion of headroom and sensitivity, the Committee was satisfied that the carrying values are appropriate.
Going Concern	Given the losses incurred by the Group, and its level of indebtedness, the assumption of going concern has been subject to challenge.	The Board has critically reviewed the planned future performance of the Group and its cash flows and funding. Following a number of disposals and the refinancing of the Group, the Committee and the Board, as a whole, is satisfied that a going concern approach is fully justified.
Disclosure of Related Party Transactions	There have been a number of related party transactions in relation to former Directors that were not properly disclosed in the relevant accounts.	The Committee critically reviewed related party transaction disclosures and discussed these with the Board, management and BDO LLP to ensure that all appropriate disclosures have been made.

# Remuneration Committee Report

## Remuneration Committee Report

Judith MacKenzie assumed the Chair of the Remuneration Committee on 7 August 2017. Pat Ridgwell and Jacques d'Unienville are also members of the Remuneration Committee. It is acknowledged that the current members are not independent Non-Executive Directors. On 7 August 2018, the Company announced the appointment of Mike Holt as an independent Non-Executive Director and Chair of the Audit Committee and has furthermore announced the appointment of Steve Dawson as another independent Non-Executive Director. Following this latter appointment, Steve Dawson and Mike Holt will be appointed members, ensuring that the Committee is comprised of two Independent Directors.

The current Board acknowledges failings in the process of determining and reporting of historic remuneration of Directors and has taken steps to improve governance and accountability. This is a continuing process.

As such the Committee believes that its primary role is to:

- determine and agree with the Board the framework of remuneration for the group of Executives within its remit;
  - ensure that effective performance management systems are in place to assess the performance of the Executives and the Company;
  - set the remuneration for the plc Directors, selected senior management and the Company Chairman;
  - oversee the implementation and operation of short term and long-term incentive arrangements for senior management; and
  - agree the policy for authorising claims for expenses from the Chairman and plc Directors.
- In future reports, the Directors' remuneration policy will be clearly defined, aiming to align the interests of all shareholders and management. The framework will recognise the need to recruit, retain and appropriately incentivise high-calibre individuals to deliver the strategy set by the Board.

The Report will outline the base salary, pension, benefits and long term incentive plans of all Board Executives.

## Directors' remuneration

Harveen Rai, Finance Director, received a discretionary bonus of £25,000 during the year to reflect the significant additional workload which came with the restructuring of the business. No other Directors received a bonus. The salaries of the Executive Directors are benchmarked against other AIM-listed businesses of a similar size and complexity.

## Non-Executive Director remuneration

Subject to annual re-election by shareholders, Non-Executive Directors are appointed for an initial term of three years. Subsequent terms of three years may be granted. The appointment and the remuneration of the Non-Executive Directors are matters reserved for the full Board. The appointments are generally terminable by either party with one month's written notice.

The Non-Executive Directors are no longer eligible to participate in the Company's performance related bonus plan, long term incentive plans or pension arrangements. Full terms and conditions for each of the Non-Executive Directors are available at the Company's registered office during normal business hours and will be available at the AGM prior to the meeting and during the meeting. Current base director's salaries and fees are disclosed in note 11 and note 30.

The Committee has been reviewing the long term incentives of the key Executives and is in the final stages of implementing these incentives. Further detail of these will be provided in due course.

# Independent Auditor's Report

## to the members of Real Good Food plc

### Opinion

We have audited the financial statements of Real Good Food plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise the consolidated statement of comprehensive income, consolidated statement of changes in equity, company statement of changes in equity, consolidated statement of financial position, company statement of financial position, consolidated cash flow statement, company cash flow statement and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 31 March 2018 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, 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.

#### Pension Scheme Assumptions

We consider there to be a significant risk concerning the appropriateness of the actuarial assumptions applied in calculating the group's defined benefit pension scheme liability of £6.4m (2017: £5.9m) as shown in Note 31. This is also considered in Note 2 (accounting policies) and Note 3 (estimates and judgements).

The valuation of the group's pension scheme liability was performed by the group's external actuary and involves significant judgement from the directors and the actuary in the choice of discount rate used and in the key sources of estimation uncertainty, in particular in relation to the inflation assumptions and mortality rates, as described in the group's accounting policies.

#### How We Addressed the Key Audit Matter in the Audit

We assessed the appropriateness of the assumptions underpinning the valuation of the scheme assets and liabilities.

Specifically we challenged the discount rate, inflation and mortality assumptions applied in the calculation by using our auditor engaged pension specialists to benchmark the assumptions applied against comparable third party data and assessed the appropriateness of the assumptions in the context of the group's own position.

In addition we tested the membership data utilised in the valuation of the scheme to source data, traced cash flow amounts to bank statements and obtained third party confirmation of the valuation of the pension assets from the investment managers.

In addition we also assessed the disclosure of the pension scheme assumptions in the financial statements against the relevant accounting framework.

# Independent Auditor's Report

to the members of Real Good Food plc

## Acquisition Accounting

As described in Note 2 (accounting policies) and Note 33, on 4 April 2017 the group acquired 84.33% of the share capital of Brighter Foods Limited.

We focused on this area because the accounting treatment for the opening balance sheet is inherently judgemental and requires the directors to exercise many judgements, including in respect of the fair values of intangible assets and the calculation of associated goodwill.

The acquisition accounting resulted in the recognition of an intangible asset, being a customer relationship, of £4.1m and residual goodwill of £5.0m.

## How We Addressed the Key Audit Matter in the Audit

We reviewed the sale and purchase agreement entered into on 4 April 2017 and considered directors accounting treatment.

We tested the fair values ascribed to intangible assets by understanding the assumptions adopted in the valuation model, which critically include the forecast attrition rate in relation to existing customers, the expected longevity of the customer relationships, and the sales and margin forecasts.

We engaged and evaluated the work of our specialists who assessed the appropriateness of those underlying assumptions.

## Going Concern

The group incurred a net loss of (£26.6m) during the year ended 31 March 2018, and as at the year end the group's current liabilities exceeded its current assets by £16.0m. Furthermore, the group incurred a negative operating cash flow of £8.5m during the year. The group had cash of £2.7m and borrowings of £40.6m as at the year end.

The above factors necessitated further assessment of whether it is appropriate for the group and the parent company to continue preparing the consolidated financial statements on a going concern basis.

We considered this to be a key audit matter because management's assessment involves significant assumptions and judgements which are based on their best estimates, analysis of the current market conditions and the group's performance.

## How We Addressed the Key Audit Matter in the Audit

Our audit procedures included obtaining and examining management's business plan until March 2020, which is also used as a basis for the discounted cash flow model in the impairment assessment of goodwill and other non-current assets. We examined the cash flow forecasts as well as considering downside sensitivities to these.

We challenged management's assumptions used in the forecast period by considering available evidence, including recent performance, to support these assumptions.

Furthermore, we vouched cash received post year end as part of business disposals to that included within the forecast, and compared these against forecast cash requirements for the next 12 months.

We also reviewed the renegotiated financing arrangements in relation to borrowings from shareholder loans and from external banks.

## Asset Impairment

Given the loss incurred during the year, there were indicators of impairment of the group's non-current assets.

This relates to goodwill, investments and tangible fixed asset balances. The impairment assessments resulted in an impairment charge processed for goodwill (£4.5m – see Note 16), tangible fixed assets (£6.0m – see Note 18) and investments (£9m – see Note 19). This is also considered in Note 2 (accounting policies) and Note 3 (estimates and judgements).

We focused on this area as the directors exercise significant judgement in determining the underlying assumptions used in impairment reviews, including the future results of the business and the discount rate applied to the forecasted future cash flows.

## How We Addressed the Key Audit Matter in the Audit

We examined the assumptions and forecasts made by the directors to assess the recoverability of the carrying amount of goodwill, investments and tangible fixed asset balances. We focused on the appropriateness of CGU identification, methodology applied to estimate recoverable amounts, discount rates and forecast cash flows. Specifically:

- We compared the methodology applied in the value in use calculation with the relevant accounting standard and checked the mathematical accuracy of management's model.
- We checked that the cash flow forecasts used in the valuation are consistent with the information used by the board.
- We challenged management on their cash flow forecasts and the growth rates for 2018/19 and beyond by considering evidence available to support these assumptions, their consistency with findings from other areas of our audit, and by performing a sensitivity analysis.
- We used our valuation experts to assist us in assessing the discount rate and long-term growth rates applied within the model.



## Our application of materiality

We consider materiality to be the magnitude by which misstatements, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

Group materiality	£500,000
Basis for materiality	0.4% of Revenue
Rationale for benchmark adopted	As the group is loss making in the current and prior year, a profit based measure was not considered suitable to be used. Revenue was concluded to be the most suitable benchmark due to this being one of the headline figures in the financial statements and a key consideration in the finance review by the directors.

In considering individual account balances and classes of transactions we apply a lower level of materiality in order to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality. Performance materiality was set at £300,000, representing 60% of materiality. The performance materiality threshold was selected based on this being our first year as auditors of the group and the relatively low number of accounts that are subject to management estimation.

Our audit work on each component was executed at levels of materiality applicable to each individual entity which was lower than group materiality. Component materiality ranged from £2,000 to £375,000. Parent company materiality was £350,000.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of £15,000. We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

There were no misstatements identified during the course of our audit that were individually, or in aggregate, considered to be material in terms of their absolute monetary value or on qualitative grounds.

## An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

In assessing the risk of material misstatement to the group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we determined that there were six significant components for the purposes of the group audit.

The audit of five out of the six significant components was performed by ourselves. For these five significant components we performed a full scope audit.

The only significant component audit not performed by ourselves was for Brighter Foods Limited, which was performed by the incumbent auditors from when the company was acquired during the year. The Responsible Individual and senior members of the group audit team were involved at all stages of the audit process of Brighter Foods Limited, directing the planning and risk assessment work. This included calls with the component auditors at the planning stage and throughout the audit, and attendance at the clearance meeting with the component auditors and local management at the premises of Brighter Foods Limited at the completion stage. Reviews of the component auditor working papers were also completed.

For the remaining components within the group that were not fully scoped in for group audit purposes, we performed an audit of the complete financial statements of three further components due to statutory local requirements. In relation to the remaining non-significant components, we performed audit procedures on specific accounts within those components that we considered had the potential for the greatest impact on the significant accounts in the financial statements, either because of the size of these accounts or their risk profile.

As a consequence of the audit scope determined, we achieved coverage of approximately 95% of revenue, 94% of gross profit and 99% of net assets by using full scope audits or similar.

# Independent Auditor's Report

to the members of Real Good Food plc

## Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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.

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 17, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the 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 the directors 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 for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Use of our report

This report is made solely to the parent 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 parent 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Gary Harding** (Senior Statutory Auditor)  
For and on behalf of BDO LLP, Statutory Auditor  
Manchester

28 September 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Consolidated Statement of Comprehensive Income

Year ended 31 March 2018

	Notes	12 months ended 31 March 2018 £'000s	12 months ended 31 March 2017 £'000s
<b>Revenue</b>	<b>4,5</b>	<b>129,842</b>	107,736
Cost of sales		<b>(104,940)</b>	(81,411)
<b>Gross profit</b>		<b>24,902</b>	26,325
Distribution expenses		<b>(5,459)</b>	(4,915)
Administrative expenses		<b>(27,187)</b>	(22,807)
Impairment charge	<b>16,18</b>	<b>(10,494)</b>	(4,109)
Significant Items	<b>6</b>	<b>(5,009)</b>	(87)
<b>Operating loss</b>	<b>8</b>	<b>(23,247)</b>	(5,593)
Finance costs	<b>9</b>	<b>(1,756)</b>	(427)
Other finance costs	<b>10</b>	<b>(164)</b>	(216)
<b>Loss before tax</b>		<b>(25,167)</b>	(6,236)
Income tax (expense)/credit	<b>14</b>	<b>(53)</b>	483
<b>Loss from continuing operations</b>		<b>(25,220)</b>	(5,753)
Loss from discontinued operations	<b>32</b>	<b>(1,345)</b>	(226)
<b>Net loss</b>		<b>(26,565)</b>	(5,979)
<b>Attributable to:</b>			
Owners of the parent		<b>(27,099)</b>	(5,979)
Non-controlling interests		<b>534</b>	-
<b>Net loss</b>		<b>(26,565)</b>	(5,979)
<b>Items that will not be reclassified to profit or loss</b>			
Foreign exchange differences on translation of subsidiaries		<b>61</b>	(48)
Actuarial losses on defined benefit plan	<b>31</b>	<b>(599)</b>	(1,847)
Tax relating to items which will not be reclassified	<b>20</b>	<b>100</b>	351
<b>Other comprehensive loss</b>		<b>(438)</b>	(1,544)
<b>Total comprehensive loss for the year</b>		<b>(27,003)</b>	(7,523)
<b>Attributable to:</b>			
Owners of the parent		<b>(27,537)</b>	(7,523)
Non-controlling interests		<b>534</b>	-
<b>Total comprehensive loss for the year</b>		<b>(27,003)</b>	(7,523)
Basic and diluted loss per share – continuing operations	<b>15</b>	<b>(33.10)p</b>	(8.18)p
Basic and diluted loss per share – discontinued operations	<b>15</b>	<b>(1.76)p</b>	(0.32)p

The notes on pages 32 to 73 form part of these financial statements.

# Consolidated Statement of Changes in Equity

Year ended 31 March 2018

	Issued Share Capital £'000s	Share Premium Account £'000s	Other Reserves £'000s	Share Option Reserve £'000s	Foreign Translation Reserve £'000s	Retained Earnings £'000s	Total £'000s	Non-Controlling Interest £'000s	Total Equity £'000s
Balance as at 31 March 2016	1,402	71,375	–	592	–	21,049	<b>94,418</b>	–	<b>94,418</b>
<b>Total comprehensive loss for the year</b>									
Loss for the year	–	–	–	–	–	(5,979)	<b>(5,979)</b>	–	<b>(5,979)</b>
Other comprehensive loss for the year	–	–	–	–	(48)	(1,496)	<b>(1,544)</b>	–	<b>(1,544)</b>
<b>Total comprehensive loss for the year</b>	–	–	–	–	(48)	(7,475)	<b>(7,523)</b>	–	<b>(7,523)</b>
<b>Transactions with owners of the Group, recognised directly in equity</b>									
Shares issued in the year	9	19	–	–	–	–	<b>28</b>	–	<b>28</b>
Deferred tax on share based payments	–	–	–	(177)	–	–	<b>(177)</b>	–	<b>(177)</b>
Dividends paid	–	–	–	–	–	(28)	<b>(28)</b>	–	<b>(28)</b>
Cancellation of share premium	–	(71,272)	–	–	–	71,272	–	–	–
<b>Total contributions by and distributions to owners of the Group</b>	9	(71,253)	–	(177)	–	71,244	<b>(177)</b>	–	<b>(177)</b>
<b>Balance as at 31 March 2017</b>	<b>1,411</b>	<b>122</b>	–	<b>415</b>	<b>(48)</b>	<b>84,818</b>	<b>86,718</b>	–	<b>86,718</b>
<b>Total comprehensive loss for the year</b>									
Loss for the year	–	–	–	–	–	(27,099)	<b>(27,099)</b>	534	<b>(26,565)</b>
Other comprehensive income for the year	–	–	–	–	61	(499)	<b>(438)</b>	–	<b>(438)</b>
<b>Total comprehensive loss for the year</b>	–	–	–	–	61	(27,598)	<b>(27,537)</b>	<b>534</b>	<b>(27,003)</b>
<b>Transactions with owners of the Group, recognised directly in equity</b>									
Shares issued in the year (note 26)	158	2,598	–	–	–	–	<b>2,756</b>	–	<b>2,756</b>
Share based payments (note 28)	–	–	–	(5)	–	–	<b>(5)</b>	–	<b>(5)</b>
Deferred tax on share based payments	–	–	–	(100)	–	–	<b>(100)</b>	–	<b>(100)</b>
Long-term liabilities (note 33)	–	–	(4,796)	–	–	–	<b>(4,796)</b>	–	<b>(4,796)</b>
Acquisition of majority interest (note 33)	–	–	–	–	–	–	–	1,269	<b>1,269</b>
<b>Total contributions by and distributions to owners of the Group</b>	158	2,598	(4,796)	(105)	–	–	<b>(2,145)</b>	1,269	<b>(876)</b>
<b>Balance as at 31 March 2018</b>	<b>1,569</b>	<b>2,720</b>	<b>(4,796)</b>	<b>310</b>	<b>13</b>	<b>57,220</b>	<b>57,036</b>	<b>1,803</b>	<b>58,839</b>

# Company Statement of Changes in Equity

Year ended 31 March 2018

	Issued Share Capital £'000s	Share Premium Account £'000s	Share Option Reserve £'000s	Retained Earnings £'000s	Total Equity £'000s
Balance as at 31 March 2016	1,402	71,375	592	(10,108)	<b>63,261</b>
<b>Total comprehensive income for the year</b>					
Loss for the year	–	–	–	(5,963)	<b>(5,963)</b>
Other comprehensive income for the year	–	–	–	(1,496)	<b>(1,496)</b>
<b>Total comprehensive income for the year</b>	–	–	–	(7,459)	<b>(7,459)</b>
<b>Transactions with owners of the Group, recognised directly in equity</b>					
Shares issued in the year	9	19	–	–	<b>28</b>
Deferred tax on share based payments	–	–	(177)	–	<b>(177)</b>
Dividends paid	–	–	–	(28)	<b>(28)</b>
Cancellation of share premium	–	(71,272)	–	71,272	–
<b>Total contributions by and distributions to owners of the Group</b>	9	(71,253)	(177)	71,244	<b>(177)</b>
<b>Balance as at 31 March 2017</b>	<b>1,411</b>	<b>122</b>	<b>415</b>	<b>53,677</b>	<b>55,625</b>
<b>Total comprehensive income for the year</b>					
Loss for the year	–	–	–	(27,067)	<b>(27,067)</b>
Other comprehensive income for the year	–	–	–	(599)	<b>(599)</b>
<b>Total comprehensive income for the year</b>	–	–	–	(27,666)	<b>(27,666)</b>
<b>Transactions with owners of the Group, recognised directly in equity</b>					
Shares issued in the year (note 26)	158	2,598	–	–	<b>2,756</b>
Share based payments (note 28)	–	–	(5)	–	<b>(5)</b>
Deferred tax on share based payments	–	–	(100)	–	<b>(100)</b>
<b>Total contributions by and distributions to owners of the Group</b>	158	2,598	(105)	–	<b>2,651</b>
<b>Balance as at 31 March 2018</b>	<b>1,569</b>	<b>2,720</b>	<b>310</b>	<b>26,011</b>	<b>30,610</b>

The notes on pages 32 to 73 form part of these financial statements.

# Consolidated Statement of Financial Position

Year ended 31 March 2018

	Notes	31 March 2018 £'000s	31 March 2017 £'000s
<b>NON-CURRENT ASSETS</b>			
Goodwill	16	69,955	69,416
Other intangible assets	17	3,247	1,155
Tangible fixed assets	18	30,098	23,932
Investments	19	81	–
Deferred tax asset	20	1,129	1,435
		<b>104,510</b>	95,938
<b>CURRENT ASSETS</b>			
Inventories	21	10,582	13,323
Trade and other receivables	22	15,296	16,016
Current tax assets		27	233
Cash collateral	23	2,000	–
Cash and cash equivalents		2,731	464
		<b>30,636</b>	30,036
<b>TOTAL ASSETS</b>		<b>135,146</b>	125,974
<b>CURRENT LIABILITIES</b>			
Bank overdrafts		–	619
Trade and other payables	24	22,486	15,243
Borrowings	23	24,160	11,375
Financial instrument	25	–	146
		<b>46,646</b>	27,383
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	23	16,390	4,701
Long-term liabilities – NCI put option	33	4,796	–
Deferred tax liabilities	20	2,035	1,278
Retirement benefit obligation	31	6,440	5,894
		<b>29,661</b>	11,873
<b>TOTAL LIABILITIES</b>		<b>76,307</b>	39,256
<b>NET ASSETS</b>		<b>58,839</b>	86,718
<b>EQUITY</b>			
Share capital	26	1,569	1,411
Share premium account		2,720	122
Other reserve	33	(4,796)	–
Share option reserve		310	415
Foreign exchange translation reserve		13	(48)
Retained earnings		57,220	84,818
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT</b>		<b>57,036</b>	86,718
Non-controlling interest		1,803	–
<b>TOTAL EQUITY</b>		<b>58,839</b>	86,718

These financial statements were approved by the Board of Directors and authorised for issue on 28 September 2018.

They were signed on its behalf by:

**Hugh CL Cawley**                      **Harveen Rai**  
Chief Executive Officer              Finance Director

The notes on pages 32 to 73 form part of these financial statements.

# Company Statement of Financial Position

Year ended 31 March 2018

Registered Company Number: 04666282

	Notes	31 March 2018 £'000s	31 March 2017 £'000s
<b>NON-CURRENT ASSETS</b>			
Investments	19	55,575	64,594
Other intangible assets	17	217	227
Property, plant and equipment	18	1,932	2,369
Deferred tax asset	20	1,176	1,274
		<b>58,900</b>	68,464
<b>CURRENT ASSETS</b>			
Trade and other receivables	22	76,908	36,122
Current tax assets		-	1,470
Cash collateral	13	2,000	-
Cash and cash equivalents		477	-
		<b>79,385</b>	37,592
<b>TOTAL ASSETS</b>		<b>138,285</b>	106,056
<b>CURRENT LIABILITIES</b>			
Bank overdrafts		-	210
Trade and other payables	24	76,087	41,827
Borrowings	23	13,894	1,000
		<b>89,981</b>	43,037
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	23	11,254	1,500
Retirement benefit obligation	31	6,440	5,894
		<b>17,694</b>	7,394
<b>TOTAL LIABILITIES</b>		<b>107,675</b>	50,431
<b>NET ASSETS</b>		<b>30,610</b>	55,625
<b>EQUITY</b>			
Share capital	26	1,569	1,411
Share premium account		2,720	122
Share option reserve		310	415
Retained earnings		26,011	53,677
<b>TOTAL EQUITY</b>		<b>30,610</b>	55,625

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act and not presented a statement of comprehensive income for the Company alone. The result for the period is a loss of £27,666k (2017: a loss of £7,459k).

These financial statements were approved by the Board of Directors and authorised for issue on 28 September 2018.

They were signed on its behalf by:

**Hugh CL Cawley**

Chief Executive Officer

**Harveen Rai**

Finance Director

The notes on pages 32 to 73 form part of these financial statements.

# Consolidated Cash Flow Statement

Year ended 31 March 2018

Notes	31 March 2018 £'000s	31 March 2017 £'000s
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
<b>Adjusted for:</b>		
(Loss) before taxation	<b>(26,512)</b>	(6,462)
Finance and other finance costs	<b>9, 10</b> <b>1,805</b>	643
FX movement	<b>152</b>	–
Share based payment expense	<b>(5)</b>	–
Loss on discontinued business	<b>32</b> <b>142</b>	–
Loss on disposal of property, plant and equipment	<b>107</b>	–
Depreciation of property, plant and equipment	<b>18</b> <b>2,929</b>	2,434
Impairment charge	<b>16, 18</b> <b>10,494</b>	4,109
Past service cost/(gain) on pension	<b>31</b> <b>115</b>	(1,330)
Amortisation of intangibles	<b>17</b> <b>2,274</b>	365
<b>Operating cash flow</b>	<b>(8,499)</b>	(241)
Decrease/(increase) in inventories	<b>3,675</b>	(963)
Decrease in receivables	<b>1,641</b>	1,021
Pension contributions	<b>(942)</b>	(310)
NCI put option	<b>33</b> <b>(4,796)</b>	–
Increase/(decrease) in payables	<b>3,155</b>	1,497
<b>Cash (used in)/generated by operations</b>	<b>(5,766)</b>	1,004
Income taxes received/(paid)	<b>1</b>	(237)
Interest paid	<b>(809)</b>	(427)
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(6,574)</b>	340
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of intangible assets	<b>17</b> <b>(249)</b>	(686)
Purchase of property, plant and equipment	<b>18</b> <b>(10,961)</b>	(10,820)
Acquisition of business, net of cash acquired	<b>33</b> <b>(1,781)</b>	–
<b>Net cash outflow from investing activities</b>	<b>(12,991)</b>	(11,506)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Shares issued in year	<b>26</b> <b>2,756</b>	28
Dividends paid	<b>–</b>	(28)
Repayment of loans	<b>(750)</b>	(688)
Inflow of investor loans	<b>23</b> <b>21,398</b>	–
Drawdowns on revolving credit facilities	<b>99,266</b>	5,628
Repayments to revolving credit facilities	<b>(99,930)</b>	–
New finance leases acquired	<b>1,008</b>	4,074
Capital repayments on finance leases	<b>(1,306)</b>	–
<b>Net cash inflow from financing activities</b>	<b>22,442</b>	9,014
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>2,877</b>	(2,152)
<b>CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents at beginning of period	<b>(155)</b>	1,997
Effects of currency translations on cash and cash equivalents	<b>9</b>	–
Net movement in cash and cash equivalents	<b>2,877</b>	(2,152)
<b>Cash and cash equivalents at end of period</b>	<b>13</b> <b>2,731</b>	(155)
<b>Cash and cash equivalents comprise:</b>		
Cash	<b>2,731</b>	464
Overdrafts	<b>–</b>	(619)
	<b>2,731</b>	(155)

The notes on pages 32 to 73 form part of these financial statements.



# Company Cash Flow Statement

Year ended 31 March 2018

Notes	31 March 2018 £'000s	31 March 2017 £'000s
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
<b>Adjusted for:</b>		
(Loss) before taxation	(25,834)	(6,935)
Finance costs	1,374	398
Impairment charge	19	1,425
Share based payment expense	(5)	–
Loss on disposal of property, plant and equipment	77	–
Past service cost/(gain) on pension	31	(1,330)
Depreciation of property, plant and equipment	18	549
Amortisation of intangibles	17	22
<b>Operating cash flow</b>	<b>(14,769)</b>	<b>(5,871)</b>
(Increase)/decrease in receivables	22	63,627
Pension contributions	31	(310)
Increase/(decrease) in payables	34,153	(55,058)
<b>Cash (used in)/generated from operations</b>	<b>(22,345)</b>	<b>2,388</b>
Income taxes received/(paid)	235	(234)
Interest paid	(493)	(182)
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(22,603)</b>	<b>1,972</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of intangible assets	17	(249)
Purchase of property, plant and equipment	18	(234)
<b>Net cash outflow from investing activities</b>	<b>(114)</b>	<b>(483)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Shares issued in year	26	28
Dividends paid	–	(28)
Inflow of investor loans	23	–
Repayment of borrowings	(750)	(750)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>23,404</b>	<b>(750)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>687</b>	<b>739</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents at beginning of period	(210)	(949)
Net movement in cash and cash equivalents	687	739
<b>Cash and cash equivalents at end of period</b>	<b>13</b>	<b>(210)</b>
<b>Cash and cash equivalents comprise:</b>		
Cash	477	–
Overdrafts	–	(210)
	<b>477</b>	<b>(210)</b>

The notes on pages 32 to 73 form part of these financial statements.

# Notes to the Financial Statements

Year ended 31 March 2018

## 1. Presentation of financial statements

### General information

Real Good Food plc is a public limited company incorporated in England and Wales under the Companies Act (registered number 04666282). The Company is domiciled in England and Wales and its registered address is 61 Stephenson Way, Wavertree, Liverpool L13 1HN. The Company's shares are traded on the Alternative Investment Market (AIM).

### Basis of preparation

These consolidated financial statements are presented on the basis of International Financial Reporting Standards (IFRS) as adopted by the European Union and have been prepared in accordance with AIM rules and the Companies Act 2006, as applicable to companies reporting under IFRS.

These consolidated financial statements have been prepared in accordance with the accounting policies set out in note 2 and under the historical cost convention, except where modified by the revaluation of certain financial instruments and commodities. The accounts are prepared on a going concern basis, as disclosed in note 3.

### Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification of a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is presented as if the operation had discontinued from the start of the comparative period. The disposal of the Garrett Ingredients Nutrition business in year to March 2018, as described in note 32, gave rise to a discontinued operation.

### IFRS standards and interpretations adopted

The following accounting standards and interpretations, issued by the International Accounting Standards Board (IASB) or IFRIC Interpretations issued by the IFRS Interpretations Committee (as endorsed by the EU), effective for periods on or after 1 January 2017, have been endorsed by the EU:

#### International Financial Reporting Standards

Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IAS 7	Disclosure Initiative

There has been no material impact on the Group's results, net assets, cash flows and disclosures on adoption of new or revised standards in the period.

The following amendments to published standards, effective for periods on or after 1 January 2018, have been endorsed by the EU:

#### International Financial Reporting Standards

Amendments to IFRS 12	Recognition of Deferred Tax Assets for Unrealised Losses
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Clarifications to IFRS 15	Revenue from Contracts with Customers
Amendment to IFRS 15	Effective date of IFRS 15
IFRS 16	Leases
IFRIC 22	Foreign Currency Transactions and Advance Consideration

During 2017/18, the Group completed an initial review of the requirements of IFRS 15 against current accounting policies. As a result of the review, it is expected that current accounting policies are materially in line with the new standard. As the business evolves, the Group will continue to review transactions with customers to ensure compliance with IFRS 15 on adoption.

The effect of IFRS 9 Financial Instruments is to measure expected costs rather than the current measurements using incurred cost under IAS39. Implementation of IFRS 16 Leases will require us to capitalise assets financed through operating leases, and operating costs will be substituted by interest and depreciation. The Group is currently assessing the impact of adopting these new standards.

## 2. Significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

### a) Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards.

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Divisional Reviews on pages 8 to 11. The financial position of the Group, its cash flows and liquidity position are described in the Finance Review on pages 12 to 13. In addition, note 23 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

Also detailed in note 23 to the financial statements, the Group has a long-term banking arrangement with Lloyds Bank Plc and this, together with customer contracts and supplier agreements, enables the Directors to believe that the Group is well placed to manage its business risks.

## 2. Significant accounting policies (continued)

The principal shareholders have considered the liquidity of the Company in line with the current strategy and future performance. The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the next 12 months and therefore continue to adopt the going concern basis in preparing the consolidated financial statements.

### b) Basis of consolidation

The consolidated financial statements include the financial statements of Real Good Food plc and entities controlled by the Company (its subsidiaries). Control is achieved where the Company is exposed to or has rights to variable returns from involvement with an investee and has the ability to affect those returns through its power over the investee.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

### c) Revenue recognition

Revenue comprises the invoiced value for the sale of goods net of sales rebates, discounts, value added tax and other taxes directly attributable to revenue and after eliminating sales within the Group. Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group.

(a) Sales of Goods: Sales of goods are recognised when goods are delivered. Sales are recorded net of discounts, Value Added Tax (VAT) and other sales-related taxes.

(b) Finance Income/Costs: Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. Other finance costs includes net interest costs on the net defined benefit pension scheme liabilities.

(c) Rebates and discounts: All discounts, rebates etc are accounted for in line with contractual commitments and netted off gross sales to reflect the net income earned and any costs incurred in promotional activity are expensed within commercial overheads. In all cases these accounts will reflect the net position after any contractual discounts and rebates along with any promotional costs. Full accruals are made for any unpaid elements.

### d) Income tax

The charge for taxation is based on the results for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that have been applied or substantially applied by the balance sheet date. Deferred tax is charged or credited to the Statement of Comprehensive Income, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority, and the Group intends to settle its current tax assets and liabilities on a net basis.

### e) Significant items

It is the Group's policy to show separately on the face of the Statement of Comprehensive Income, items that it considers to be significant, to assist the reader's understanding of the accounts. The Group defines the term 'significant' as items that are material in respect of their size and/or nature; at a segment reporting level, for example, a major restructuring of the management of that segment. The Group believes that by identifying these items separately as significant it enhances the understanding of the true performance of the segment trading position. Summary details of significant items are shown in note 6 to these accounts.

### f) Pension costs

The Group operates a defined contribution and a defined benefit pension scheme. Payments to the defined contribution scheme are charged as an expense as they fall due. For the defined benefit scheme the cost of providing benefits is determined using the Projected Unit Credit Method, with full actuarial valuations being carried out every three years. Actuarial gains and losses are recognised in full in the period in which they occur. Further details are given in note 31 to the financial statements.

### g) Property, plant and equipment

Property, plant and equipment are stated at historical cost or fair value at the date of acquisition, less accumulated depreciation and impairment provisions.

Depreciation is provided to write off the cost, less the estimated residual value, of property, plant and equipment by equal instalments over their estimated useful economic lives as follows:

#### Land and buildings

Freehold buildings	40 to 50 years
Short-term leasehold buildings	Length of lease

#### Plant and equipment

Plant and equipment	2 to 13 years
Motor vehicles	4 years
Fixtures and fittings	4 to 13 years
Computer equipment	4 years

# Notes to the Financial Statements (continued)

Year ended 31 March 2018

## 2. Significant accounting policies (continued)

Impairment reviews of property, plant and equipment are undertaken if there are indications that the carrying values may not be recoverable or that the recoverable amounts may be less than the assets' carrying value.

Assets in the course of construction relate to plant and equipment in the process of construction, which were not complete, and hence were not in use at the year end. Assets in the course of construction are not depreciated until they are completed and available for use.

### h) Intangible assets

Intangible assets include computer software, development costs and business relationships. The following assets are amortised on a straight-line basis over the following periods:

Computer software	5 years
Development costs, and business relationships	3 years

The charge for the year is included in administration expenses within the Statement of Comprehensive Income.

Impairment reviews of intangible assets are undertaken if there are indications that the carrying values may not be recoverable or that the recoverable amounts may be less than the assets' carrying value.

### i) Leases

Where a lease is entered into which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the Statement of Financial Position as an item of property, plant and equipment and is depreciated over the shorter of its estimated useful life or the term of the lease. Future instalments under such leases, net of finance charges, are included within borrowings. Rentals payable are apportioned between the finance element, which is charged to the profit or loss, and the capital element, which reduces the outstanding obligation for future instalments.

All other leases are treated as operating leases and the rentals payable are charged on a straight-line basis to the profit or loss over the lease term.

### j) Investments

Investments in the Company and Group accounts relate to investments in subsidiaries and associated companies which are stated at cost less provision for any impairment in value.

### k) Inventories

Inventory is valued at the lower of cost and net realisable value. Where appropriate, cost includes production and other attributable overhead expenses as described in IAS 2 Inventories. Cost is calculated on a first-in, first-out basis by reference to the invoiced value of supplies and attributable costs of bringing the inventory to its present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. All inventories are reduced to net realisable value where the estimated selling price is lower than cost. A provision is made for slow moving, obsolete and defective inventory where appropriate.

### l) Research and development

Research and development expenditure is charged to the income statement in the period in which it is incurred. Development expenditure is capitalised when the criteria for recognising an asset are met. When the recognition criteria have been met, expenditure is capitalised as an intangible asset. Property, plant and equipment used for research and development is capitalised and depreciated in accordance with the Group's policy.

### m) Cash and cash equivalents

Cash and cash equivalents on the Statement of Financial Position consist of cash in hand and at the bank. Cash and cash equivalents recognised in the Cash Flow Statement include cash in hand and at the bank, and bank overdrafts which are repayable on demand. Deposits are included within cash and cash equivalents only when they have a short maturity of three months or less at the date of acquisition.

The cash and cash equivalents figure for the Group is inflated by £2million in relation to security provided by Omnicane and Napier Brown Holdings (see note 23) to Lloyds Banking Group. The £2million has been supplied as investor loans and attracts interest. This is referred to as Cash Collateral throughout the financial statements and is not displayed on the cashflow.

### n) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### o) Trade payables

Trade payables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method.

### p) Borrowings

Interest-bearing loans and overdrafts are recorded as the proceeds received net of direct issue costs and are valued at fair value net of any transaction costs directly attributable to the borrowing. Interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding. The Group has an invoice discounting facility secured on the trade debtors as specified in note 23. Liabilities under this arrangement are shown in borrowings.

## 2. Significant accounting policies (continued)

### q) Foreign currencies

The consolidated financial statements are presented in sterling which is the Group's functional and presentation currency.

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

All foreign exchange gains and losses arising from transactions in the year are presented in the Statement of Comprehensive Income within the administration expense heading. Foreign currency differences on the translation of foreign subsidiaries are included in other comprehensive income and are shown as a separate reserve on the Statement of Financial Position.

### r) Goodwill

Goodwill is calculated as the difference between the fair value of the consideration exchanged and the net fair value of the identifiable assets and liabilities acquired, and is capitalised. Goodwill is tested for impairment annually and whenever there is an indication of impairment. Goodwill is carried at cost less accumulated impairment losses.

Gains and losses on the disposal of a business combination include the carrying amount of goodwill relating to the entity sold.

IFRS 3 "Business Combinations" requires that goodwill arising on the acquisition of subsidiaries is capitalised and included in intangible assets. IFRS 3 also requires the identification of other intangible assets at acquisition. The assumptions involved in valuing these intangible assets require the use of estimates and judgements which may differ from the actual outcome. These estimates and judgements cover future growth rates, expected inflation rates and the discount rate used.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred. Any contingent purchase consideration payable is recognised at fair value at the acquisition date. If the contingent purchase consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent purchase consideration are recognised in the Consolidated Income Statement.

### s) Government grants

Grants which have been received for which the grant criteria have been met are included in operating income. Grants which have been received where the grant criteria have not yet been met are included in liabilities.

### t) Invoice discounting

The Group has an invoice discounting facility of £20 million with Lloyds Banking Group secured on the trade debtors on a revolving basis with a minimum term of 12 months and a six month notice period. This facility is secured against the debtors across the whole of the Group's UK businesses (excluding Brighter Foods) with an interest rate of 1.5% above Base Rate. Trade debtors remain assets of the Group and are shown at the total amount collectable. Liabilities under this arrangement are shown in borrowings.

### u) Non-controlling Interest (NCI) put option

The financial liability for the NCI put option is recognised at the present value of the estimated amount payable upon exercise of the NCI option with a corresponding asset recognised in other reserves. Subsequent changes in the carrying amount resulting from remeasurement of the amount payable on exercising the options would be recognised in equity.

## 3. Critical accounting estimates and judgements

In order to prepare these consolidated financial statements in accordance with the accounting policies set out in note 2, management has used estimates and judgements to establish the amounts at which certain items are recorded. Critical accounting estimates and judgements are those that have the greatest impact on the financial statements and require the most difficult, subjective and complex judgements about matters that are inherently uncertain. Estimates are based on factors including historical experience and expectations of future events that management believes to be reasonable. However, given the judgemental nature of such estimates, actual results could be different due to the assumptions used. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

# Notes to the Financial Statements (continued)

Year ended 31 March 2018

## 3. Critical accounting estimates and judgements (continued)

### a) Impairment of goodwill

An impairment of goodwill has the potential to significantly impact upon the Group's Statement of Comprehensive Income for the period. In order to determine whether impairments are required the Directors estimate the recoverable amount of the goodwill. This calculation is based on the Group's cash flow forecasts for the following financial year extrapolated over a rolling 11-year period assuming a 2% growth rate. A discount factor, based upon the Group's weighted average cost of capital, which has been increased to reflect the increased risk of the Company being listed on AIM rather than the full market, is applied to obtain a current value ('value in use').

The weighted average cost of capital is impacted by estimates of interest rates, equity returns and market related risks. The Group's weighted average cost of capital is reviewed on an annual basis.

The fair value less costs to sell of the cash generating unit is used if this results in an amount in excess of value in use.

Estimated future cash flows for impairment calculations are based on management's expectations of future volumes and margins based on plans and best estimates of the productivity of the cash generating units in their current condition. Future cash flows therefore exclude benefits from major expansion projects requiring future capital expenditure and estimate an amount for routine capital expenditure.

Further details are set out in note 16.

### b) Retirement benefits

The Company sponsors the Napier Brown Foods Retirement Benefits Plan which is a funded defined benefit arrangement. The amounts recorded in the financial statements for this type of scheme are based on a number of assumptions, changes to which could have a material impact on the reported amounts.

Any net deficit or surplus arising on the defined benefit plan is shown in the Statement of Financial Position. The amount recorded is the difference between Plan assets and Plan liabilities at the Statement of Financial Position date. Plan assets are based on market value at that date. Plan liabilities are based on actuarial estimates of the present value of future pension or other benefits that will be payable to members.

The most sensitive assumptions involved in calculating the expected Plan liabilities are mortality rates and the discount rate used to calculate the present value. If the mortality rate assumption changed, a one year increase to longevity would increase the Plan liability by 3%. An increase in the discount rate of 0.5% would result in a reduction of the Plan liabilities of 6% and a 0.5% increase in the rate of inflation would increase the liabilities of the Plan by 2%.

The Statement of Comprehensive Income includes a regular charge to operating profit for the current and past service cost. Past service costs represent the change in the present value of the benefits obligation that arises from benefit charges that are applied retrospectively to prior year benefits that have accrued. Past service costs are charged in full in the year when the changes to benefits are made. There is also a finance charge, which represents the net of expected income from Plan assets and an interest charge on Plan liabilities. These calculations are based on expected outcomes at the start of the financial year. The Statement of Comprehensive Income is most sensitive to changes in expected returns from plan assets and the discount rate used to calculate the interest charge on Plan liabilities.

Full details of these assumptions, which are based on advice from the pension fund actuaries, are set out in note 31.

### c) Business claims

In common with comparable food groups, the Group is involved in disputes in the ordinary course of business which may give rise to claims. Provision representing the known cost of defending and concluding claims is made in the financial statements in accruals as part of other payables for claims where costs are likely to be incurred. The Group carries a wide range of insurance cover and no separate disclosure is made of the detail of claims or the costs covered by insurance, as to do so could prejudice the position of the Group. The dispute regarding the non-supply of contracted sugar to the Group remains unresolved.

### d) Going concern

The Directors have considered the Group's business activities together with the factors likely to affect its planned future performance. The forecasts, agreed with the businesses, consider reasonable possible changes in trading performance and these assumptions have been projected and shared with the Company's advisers.

The Group was in compliance with its banking covenant tests at 31 March 2018 and 30 June 2018 with the term loan subsequently settled in full in September 2018.

The principal shareholders of the Group have shown considerable support for the working capital requirements and, having carefully considered the liquidity of the Company in line with the current strategy and future performance, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the next 12 months and therefore continue to adopt the going concern basis in preparing the consolidated financial statements.

## 4. Revenue

The revenue for the Group for the current year arose from the sale of goods in the following areas:

<b>Cake Decoration</b> <b>£47.7million</b>	Manufactures, sells and supplies cake decorating products and ingredients for the baking sector. The revenue from Renshaw Academy is shown in Head Office and relates to the Cake Decoration division.
<b>Food Ingredients</b> <b>£45.9million</b>	Manufactures and supplies a range of food ingredients such as chocolate coatings, sauces, jams, dry powder blends and snack bars to the retail, wholesale and foodservice sectors.
<b>Premium Bakery</b> <b>£36.2million</b>	The manufacture and supply of high quality cakes and desserts to the retail and foodservice sectors.

## 5. Segment reporting

### Business segments

The divisional structure reflects the management teams in place and also ensures all aspects of trading activity have the specific focus they need in order to achieve our growth plans.

The Group operates in three main divisions: cake decoration, food ingredients and premium bakery. The Head Office functions of Finance, Human Resources, Technical, Marketing and the Innovation Centre provide support to the divisions in varying scale.

12 months ended 31 March 2018	Cake Decoration £'000s	Food Ingredients £'000s	Premium Bakery £'000s	Head Office £'000s	Continuing Operations £'000s	Discontinued Operations £'000s	Total Group £'000s
Total revenue	55,175	50,641	36,206	61	142,083	284	142,367
Revenue – internal	(7,544)	(4,697)	–	–	(12,241)	–	(12,241)
<b>External revenue</b>	<b>47,631</b>	<b>45,944</b>	<b>36,206</b>	<b>61</b>	<b>129,842</b>	<b>284</b>	<b>130,126</b>
<b>Underlying adjusted EBITDA (see table on next page)</b>	<b>2,597</b>	<b>2,344</b>	<b>(922)</b>	<b>(6,585)</b>	<b>(2,566)</b>	<b>(844)</b>	<b>(3,410)</b>
<b>Operating profit/(loss) before impairment &amp; significant items</b>	<b>1,524</b>	<b>238</b>	<b>(2,439)</b>	<b>(7,067)</b>	<b>(7,744)</b>	<b>(869)</b>	<b>(8,613)</b>
Impairment charge	–	(3,506)	(6,988)	–	(10,494)	–	(10,494)
Significant items	(1,060)	(275)	(731)	(2,943)	(5,009)	(476)	(5,485)
<b>Operating profit/(loss)</b>	<b>464</b>	<b>(3,543)</b>	<b>(10,158)</b>	<b>(10,010)</b>	<b>(23,247)</b>	<b>(1,345)</b>	<b>(24,592)</b>
Net finance costs	(214)	(127)	(205)	(1,210)	(1,756)	–	(1,756)
Other finance costs	–	–	–	(164)	(164)	–	(164)
<b>Profit/(loss) before tax</b>	<b>250</b>	<b>(3,670)</b>	<b>(10,363)</b>	<b>(11,384)</b>	<b>(25,167)</b>	<b>(1,345)</b>	<b>(26,512)</b>
Tax	1,364	(580)	99	(936)	(53)	–	(53)
<b>Profit/(loss) after tax as per comprehensive statement of income</b>	<b>1,614</b>	<b>(4,250)</b>	<b>(10,264)</b>	<b>(12,320)</b>	<b>(25,220)</b>	<b>(1,345)</b>	<b>(26,565)</b>

Included in the Premium Bakery segment, one single customer accounts for 17.2% (2017: 19.8%) of the continuing Group's external sales for the year ended 31 March 2018.

### Geographical segments

The Group earns revenue from countries outside the United Kingdom, but as these only represent 9.8% of the total revenue of the Group (2017 : 11.6%), segmental reporting of a geographical nature is not considered relevant. The Cake Decoration segment accounts for the majority of this turnover.

# Notes to the Financial Statements (continued)

Year ended 31 March 2018

## 5. Segment reporting (continued)

Reconciliation of underlying EBITDA to operating profit	Cake Decoration £'000s	Food Ingredients £'000s	Premium Bakery £'000s	Head Office £'000s	Continuing Operations £'000s	Discontinued Operations £'000s	Total Group £'000s
<b>Operating profit/(loss)</b>	<b>464</b>	<b>(3,543)</b>	<b>(10,158)</b>	<b>(10,010)</b>	<b>(23,247)</b>	<b>(1,345)</b>	<b>(24,592)</b>
Significant items	1,060	275	731	2,943	5,009	476	5,485
Impairment charge	–	3,506	6,988	–	10,494	–	10,494
Depreciation	797	693	994	425	2,909	20	2,929
Amortisation	276	1,413	523	57	2,269	5	2,274
<b>Underlying adjusted EBITDA</b>	<b>2,597</b>	<b>2,344</b>	<b>(922)</b>	<b>(6,585)</b>	<b>(2,566)</b>	<b>(844)</b>	<b>(3,410)</b>

31 March 2018	Cake Decoration £'000s	Food Ingredients £'000s	Premium Bakery £'000s	Head Office £'000s	Continuing Operations £'000s	Discontinued Operations £'000s	Total Group £'000s
<b>Segment assets</b>	<b>110,146</b>	<b>24,615</b>	<b>17,337</b>	<b>(16,952)</b>	<b>135,146</b>	<b>–</b>	<b>135,146</b>
<b>Segment liabilities</b>	<b>26,219</b>	<b>18,449</b>	<b>27,097</b>	<b>4,542</b>	<b>76,307</b>	<b>–</b>	<b>76,307</b>
<b>Net operating assets</b>	<b>83,927</b>	<b>6,166</b>	<b>(9,760)</b>	<b>(21,494)</b>	<b>58,839</b>	<b>–</b>	<b>58,839</b>
Non-current asset additions	2,646	4,206	8,169	2,087	17,108	–	17,108
Depreciation	(797)	(693)	(994)	(425)	(2,909)	(20)	(2,929)
Amortisation	(276)	(1,413)	(523)	(57)	(2,269)	(5)	(2,274)

12 months ended 31 March 2017	Cake Decoration £'000s	Food Ingredients £'000s	Premium Bakery £'000s	Head Office £'000s	Continuing Operations £'000s	Discontinued Operations £'000s	Total Group £'000s
Total revenue	51,042	31,195	33,892	–	116,129	472	116,601
Revenue - internal	(4,053)	(4,340)	–	–	(8,393)	–	(8,393)
<b>External revenue</b>	<b>46,989</b>	<b>26,855</b>	<b>33,892</b>	<b>–</b>	<b>107,736</b>	<b>472</b>	<b>108,208</b>
<b>Underlying adjusted EBITDA (see table overleaf)</b>	<b>6,528</b>	<b>(1,352)</b>	<b>1,167</b>	<b>(4,952)</b>	<b>1,391</b>	<b>(212)</b>	<b>1,179</b>
<b>Operating profit/(loss) before impairment &amp; significant items</b>	<b>5,758</b>	<b>(1,823)</b>	<b>192</b>	<b>(5,524)</b>	<b>(1,397)</b>	<b>(226)</b>	<b>(1,623)</b>
Impairment charge	–	(3,589)	–	(520)	(4,109)	–	(4,109)
Significant items	(264)	(141)	(95)	413	(87)	–	(87)
<b>Operating profit/(loss)</b>	<b>5,494</b>	<b>(5,553)</b>	<b>97</b>	<b>(5,631)</b>	<b>(5,593)</b>	<b>(226)</b>	<b>(5,819)</b>
Net finance costs	(129)	(34)	(83)	(181)	(427)	–	(427)
Other finance costs	–	–	–	(216)	(216)	–	(216)
<b>Profit/(loss) before tax</b>	<b>5,365</b>	<b>(5,587)</b>	<b>14</b>	<b>(6,028)</b>	<b>(6,236)</b>	<b>(226)</b>	<b>(6,462)</b>
Tax	(1,280)	763	(29)	1,029	483	–	483
<b>Profit/(loss) after tax as per comprehensive statement of income</b>	<b>4,085</b>	<b>(4,824)</b>	<b>(15)</b>	<b>(4,999)</b>	<b>(5,753)</b>	<b>(226)</b>	<b>(5,979)</b>



## 5. Segment reporting (continued)

Reconciliation of underlying EBITDA (adjusted) to operating profit	Cake Decoration £'000s	Food Ingredients £'000s	Premium Bakery £'000s	Head Office £'000s	Continuing Operations £'000s	Discontinued Operations £'000s	Total Group £'000s
<b>Operating (profit)/loss</b>	5,494	(5,553)	97	(5,631)	(5,593)	(226)	(5,819)
Significant items	264	141	95	(413)	87	–	87
Impairment charge	–	3,589	–	520	4,109	–	4,109
Depreciation	719	463	696	550	2,428	6	2,434
Amortisation	51	8	279	22	360	8	368
<b>Underlying adjusted EBITDA</b>	<b>6,528</b>	<b>(1,352)</b>	<b>1,167</b>	<b>(4,952)</b>	<b>1,391</b>	<b>(212)</b>	<b>1,179</b>

## 6. Significant items

	Commentary Notes	12 months ended 31 March 2018 £'000s	12 months ended 31 March 2017 £'000s
Disruption/abnormal wastage costs relating to ongoing capital projects	1	(885)	–
Investigation work	2	(1,207)	–
Professional fees in relation to refinancing costs	3	(553)	–
Discontinued operations and asset write-off	4	(920)	–
Commercial disputes	5	(355)	–
Past service gain on pensions (note 31)*		–	1,155
Management restructuring	6	(1,254)	(419)
Acquisition and legal costs	7	(311)	(823)
<b>Significant items</b>		<b>(5,485)</b>	<b>(87)</b>
Continuing business		<b>(5,009)</b>	<b>(87)</b>
Discontinued business		<b>(476)</b>	<b>–</b>
<b>Total significant items</b>		<b>(5,485)</b>	<b>(87)</b>

\* Historically, an allowance for future pension increases of 3% has been included in the defined benefit obligation. The past service gains of £1,155k (actual gain of £1,584k less costs of service gains £254k and ETZ exercise cost of £175k) reflect the value of this discretionary option, rather than the fixed 3% assumed historically.

The Group's underlying profit figure excludes a number of items which are material and non-recurring and are detailed separately to ensure the underlying operating performance of the businesses is clearly visible, without the distortions of these non-recurring costs.

# Notes to the Financial Statements (continued)

Year ended 31 March 2018

## 6. Significant items (continued)

The year to March 2018 has been one of significant corporate change, upheaval and challenge and the excluded items, explained in the notes below, have been commensurately large.

1. Disruption/abnormal wastage during improving capacity of business units. Considerable funds have been invested throughout the Group in the past two years in capital projects, to improve the capacity and operating efficiency of the Group. The unusual costs associated with abnormal disruption, which arose on the capital projects in Haydens, Renshaw and R&W Scott, have been separately tracked in the P&L.
2. Investigation work relating to corporate governance failings. There were well-publicised failings in the area of corporate governance. The costs of securing the services of external agencies sufficiently specialised, experienced and qualified to ensure all failings were fully investigated and identified, and remedial actions highlighted on a timely basis have been identified separately.
3. Professional fees relating to refinancing costs required. The very unusual frequency and short-term costs of refinancing in the period are highlighted here, as being the costs associated with providing repeated emergency funding before any form of longer-term package was able to be negotiated. All loans have now been negotiated.
4. Close of business transaction and asset write-offs. During the year, we closed the Garrett Ingredients Nutrition business (£476k), a business that we had bought out of administration, to avoid incurring continuing losses and to avoid the distraction that managing a distressed business inevitably entails. The remaining costs relate to capital expenditure projects which are no longer being pursued.
5. Commercial disputes. These costs relate to the well-publicised issues, identified separately in previous announcements to the City, arising from disputes over material sugar contracts. One claim is now settled, the other continues and is not yet resolved.
6. Management restructuring. Individual redundancies are generally a matter of everyday business, however, significant restructuring has been required and effected right across the Group during the past 12 months, as fundamental changes in the operations have been brought about, while deliberate, one-off changes have been delivered. The central functions have been largely disbanded, for example, as the Group can demonstrably no longer afford to sustain a central overhead of marketing, operations, or HR. The costs of severance for these staff members have been separately identified and disclosed here.
7. The Company incurred further legal fees in 2018 relating to the successful acquisition of Brighter Foods in April 2017.

## 7. Auditor's remuneration

12 months ended 31 March 2018 £'000s	12 months ended 31 March 2017 £'000s
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	12 months ended 31 March 2018 £'000s	12 months ended 31 March 2017 £'000s
<b>Fees payable to BDO LLP</b>		
<b>Fees payable to the Company's auditor for the audit of the Group's annual accounts</b>	<b>(220)</b>	–
<b>Fees payable to the Company's auditor for other services;</b>		
Tax compliance services	(25)	–
Tax advisory services	(5)	–
Other assurance services	(6)	–
Other assurance services – investigation work (note 6)	(199)	–
<b>Total fees paid to auditor</b>	<b>(455)</b>	–
<b>Fees payable to previous auditor (Crowe Clark Whitehill LLP)</b>		
<b>Fees payable to the Company's auditor for the audit of the Group's annual accounts</b>	–	(255)
<b>Fees payable to the Company's auditor for other services;</b>		
Audit-related assurance services	(95)	(42)
Tax compliance services	–	(21)
Tax advisory services	(35)	(35)
Other assurance services	(14)	(70)
<b>Total fees paid to auditor</b>	<b>(144)</b>	<b>(423)</b>
<b>Total auditor remuneration</b>	<b>(599)</b>	<b>(423)</b>

## 7. Auditor's remuneration (continued)

The fee payable to the Company's auditor for the audit of the annual accounts has been split between Real Good Food Company, and its subsidiaries, as follows:

	12 months ended 31 March 2018 £'000s	12 months ended 31 March 2017 £'000s
<b>Annual accounts audit fee apportioned by division</b>		
Real Good Food Company	(92)	(170)
J F Renshaw Limited	(50)	(35)
R&W Scott Limited	(18)	–
Garrett Ingredients Limited	(20)	(15)
Haydens Bakery Limited	(20)	(20)
Rainbow Dust Colours Limited	(20)	(15)
	<b>(220)</b>	<b>(255)</b>

## 8. Operating profit

### Operating profit for continuing operations

Notes	12 months ended 31 March 2018 £'000s	12 months ended 31 March 2017 £'000s
External sales	<b>129,842</b>	107,736
Staff costs	<b>12</b> (40,732)	(31,070)
Inventories:		
– cost of inventories as an expense (included in cost of sales)	<b>(70,591)</b>	(53,317)
Depreciation of property, plant and equipment	<b>18</b> (2,909)	(2,428)
Amortisation of intangible assets	<b>17</b> (2,269)	(360)
Significant items	<b>6</b> (5,009)	(87)
Impairment charge	<b>16, 18</b> (10,494)	(4,109)
Operating lease payment:		
– land and buildings	<b>(1,161)</b>	(409)
– other assets	<b>(269)</b>	(436)
Research and development expenditure	<b>(1,795)</b>	(1,839)
Impairment of trade receivables	<b>22</b> (146)	92
Foreign exchange losses/(gains)	<b>289</b>	(19)
Other net operating expenses	<b>(18,003)</b>	(19,347)
<b>Total</b>	<b>(153,089)</b>	<b>(113,329)</b>
<b>Operating loss</b>	<b>(23,247)</b>	<b>(5,593)</b>

# Notes to the Financial Statements (continued)

Year ended 31 March 2018

## 9. Finance costs

	12 months ended 31 March 2018 £'000s	12 months ended 31 March 2017 £'000s
Interest on bank loans, overdrafts and investor loans	(1,311)	(409)
Interest on obligations under finance leases	(330)	(18)
Past service cost on pension	(115)	–
	(1,756)	(427)
Continuing business	(1,756)	(427)
Discontinued business	–	–

## 10. Other finance costs

	12 months ended 31 March 2018 £'000s	12 months ended 31 March 2017 £'000s
Interest on pension scheme liabilities (note 31)	(553)	(754)
Interest on pension scheme assets (note 31)	389	538
	(164)	(216)

## 11. Directors' remuneration

	12 months ended 31 March 2018 £'000s	12 months ended 31 March 2017 £'000s
Directors salaries, benefits and fees (detailed overleaf)	(682)	(556)
Related party Directors fees and consultancy fees (see note 30)	(134)	(384)
	(816)	(940)

The prior year disclosure has been amended to include the fees paid for directors as disclosed in note 30.

## 11. Directors' remuneration (continued)

The emoluments of the Directors for the period were as follows:

	Fees/ Salaries inc Er's NIC £'000's	Taxable Benefits £'000's	Bonus £'000's	Pension Contributions £'000's	12 months ended 31 March 2018 £'000s	12 months ended 31 March 2017 £'000s
M J McDonough (to Sept 2015)	-	-	-	-	-	2
P W Totté (to Aug 2017)	67	43	-	-	110	237
D P Newman (to Aug 2017)	56	4	-	8	68	186
P G Ridgwell	38	-	-	-	38	30
P C Salter (to Aug 2017)	15	-	-	-	15	36
J M d'Unienville	25	-	-	-	25	25
C O Thomas	171	-	-	-	171	40
H CL Cawley (from Aug 2017)	82	3	-	-	85	-
H Rai (from Aug 2017)	112	8	25	6	151	-
J A Mackenzie (from Jun 2017)	19	-	-	-	19	-
	585	58	25	14	682	556

This includes salaries and fees (including Employer's NI) received as an officer of the Company. Taxable benefits include car allowance, health and other taxable payments for expenses paid by the Company.

All salaries and fees disclosed are included in current year trading results. Fees to P G Ridgwell (£23k) and J M d'Unienville (£19k) disclosed but not paid in prior years were paid in the current year.

At 31 March 2018, there were £46k of salaries and fees outstanding for payment to Directors of the Group (H Rai £25k, J M d'Unienville £19k and J A Mackenzie £2k). These were settled in April and May 2018 and have been included in the numbers above.

Directors fees paid to J A Mackenzie are charged and paid to Downing LLP.

Consultancy fees and expenses paid to entities in which Directors hold a beneficial interest, for services provided to the Group by the Directors, are disclosed as related party transactions in note 30.

The current Company Directors disclosed are considered as key management personnel.

The current base annual salaries of the Directors are as follows:

	Base Salary £'000s
P G Ridgwell	35
J M d'Unienville	25
C O Thomas	25
J A Mackenzie	25
M J Holt	25
S Dawson	25
H CL Cawley	250
H Rai	180
	590

# Notes to the Financial Statements (continued)

Year ended 31 March 2018

## 11. Directors' remuneration (continued)

### Directors' interests in share options:

		Date of Grant	No of Options at 31 March 2018	No of Options at 31 March 2017	Exercise Price	Earliest Exercise Date	Exercise Expiry Date
P W Totté	Unapproved options	Jul-09	–	1,000,000	5.25p	Jul-12	Jul-19
	Unapproved options	May-10	–	142,857	24.50p	May-13	May-20
P W Totté (Menton)	Unapproved options	Mar-11	<b>3,817,725</b>	3,817,725	25.00p	Apr-11	Mar-21
P G Ridgwell	Unapproved options	Jul-09	<b>476,190</b>	476,190	5.25p	Jul-12	Jul-19
	Unapproved options	May-10	<b>61,224</b>	61,224	24.50p	May-13	May-20
P C Salter	Unapproved options	Jul-09	–	285,714	5.25p	Jul-12	Jul-19
	Unapproved options	May-10	–	102,040	24.50p	May-13	May-20
C O Thomas	Unapproved options	Jul-09	<b>304,762</b>	304,762	5.25p	Jul-12	Jul-19
	Unapproved options	May-10	<b>40,816</b>	40,816	24.50p	May-13	May-20
D P Newman	Approved options	Jun-09	–	333,333	5.25p	Jul-12	Jul-19
	Approved options	May-10	–	20,408	24.50p	May-13	May-20
	Approved options	May-15	–	16,666	45.00p	May-18	Jul-19

No new options were granted to Directors during the year (2017: nil). Options have historically been granted to Directors whose performances and potential contribution were judged to be important to the operations of the Group, as incentives to maximise their performance and contribution.

The mid-market price of the ordinary shares on 31 March 2018 was 16.00p and the range during the year was 36.90p to 16.00p.

No Director exercised share options during the year.

During the period retirement benefits were accruing to two directors (2017: one) in respect of money purchase pension schemes.

## 12. Staff numbers and costs

The average monthly number of people employed by the Group (including Executive Directors) during the year, analysed by category, were as follows:

	31 March 2018 Group	31 March 2018 Company	31 March 2017 Group	31 March 2017 Company
<b>Continuing operations</b>				
Production	<b>895</b>	–	573	–
Selling and distribution	<b>141</b>	–	304	–
Directors and administrative	<b>171</b>	<b>47</b>	163	46
	<b>1,207</b>	<b>47</b>	1,040	46
<b>Discontinued operations</b>				
Production	<b>2</b>	–	3	–
Selling and distribution	–	–	–	–
Directors and administrative	<b>2</b>	–	2	–
	<b>4</b>	–	5	–
Total no. of staff	<b>1,211</b>	<b>47</b>	1,045	46

## 12. Staff numbers and costs (continued)

The aggregate payroll costs were as follows:

	31 March 2018 Group £000's	31 March 2018 Company £000's	31 March 2017 Group £000's	31 March 2017 Company £000's
<b>Continuing operations</b>				
Wages, salaries and fees	(35,796)	(3,169)	(27,191)	(2,476)
Social security costs	(3,284)	(347)	(2,657)	(310)
Other pension costs	(1,652)	(289)	(1,222)	(256)
	<b>(40,732)</b>	<b>(3,805)</b>	<b>(31,070)</b>	<b>(3,042)</b>
<b>Discontinued operations</b>				
Wages, salaries and fees	(174)	–	(156)	–
Social security costs	(16)	–	(12)	–
Other pension costs	(12)	–	(7)	–
	<b>(202)</b>	<b>–</b>	<b>(175)</b>	<b>–</b>
<b>Total payroll costs</b>	<b>(40,934)</b>	<b>(3,805)</b>	<b>(31,245)</b>	<b>(3,042)</b>

## 13. Notes supporting the cash flow statement

The cash collateral figure for the Group is £2 million. This has been provided to Lloyds Banking Group as security for the liabilities of the Group. The £2 million has been supplied as investor loans by Omnicane and Napier Brown (see note 23) and attracts interest. This amount is not included in the cashflow.

### Group

	Non-current Loans and Borrowings £000's (Note 23)	Current Loans and Borrowings £000's (Note 23)	Total £000's
At 31 March 2017	4,701	11,375	16,076
Cash flows	12,562	7,124	19,686
Non-cash flows			
– Cash collateral	–	2,000	2,000
– Loans and borrowings classified as non-current at 31 March 2017 becoming current before 31 March 2018	(3,157)	3,157	–
– Hire purchase assets procured by lender	2,006	455	2,461
– Government Grant	278	49	327
<b>At 31 March 2018</b>	<b>16,390</b>	<b>24,160</b>	<b>40,550</b>

# Notes to the Financial Statements (continued)

Year ended 31 March 2018

## 13. Cash and Cash Equivalents (continued)

### Company

	Non-current Loans and Borrowings £000's (Note 23)	Current Loans and Borrowings £000's (Note 23)	Total £000's
At 31 March 2017	1,500	1,000	2,500
Cash flows	11,254	9,394	20,648
Non-cash flows			
– Cash collateral	–	2,000	2,000
– Loans and borrowings classified as non-current at 31 March 2017 becoming current before 31 March 2018	(1,500)	1,500	–
<b>At 31 March 2018</b>	<b>11,254</b>	<b>13,894</b>	<b>25,148</b>

## 14. Taxation

### Group

	31 March 2018 £'000s	31 March 2017 £'000s
<b>Current tax</b>		
UK current tax on profit of the period	(58)	(84)
UK current tax on significant items	–	84
Adjustments in respect of prior years	196	134
<b>Total current tax</b>	<b>138</b>	<b>134</b>
Origination and reversal of timing differences	(213)	377
Adjustments in respect of prior years	22	(28)
<b>Total deferred tax</b>	<b>(191)</b>	<b>349</b>
Tax – continuing operations	(53)	483
Tax – discontinued operations	–	–
<b>Total tax</b>	<b>(53)</b>	<b>483</b>
Tax (expense)/credit on loss	(53)	483



**14. Taxation** (continued)**Factors affecting tax charge for the period:**

The tax assessed for the period differs from the standard rate of corporation tax in the UK of 19% (2017 : 20%).

The differences are explained below:

	31 March 2018 £'000s	31 March 2017 £'000s
<b>Tax reconciliation</b>		
<b>Loss per accounts before taxation</b>	<b>(26,512)</b>	(6,462)
Tax on loss on ordinary activities at standard tax rate of 19% (2017: 20%)	<b>5,037</b>	1,292
Expenses not deductible for tax purposes	<b>(2,191)</b>	(709)
Share option relief	–	26
Current year losses not recognised – deferred tax	<b>(3,202)</b>	(204)
Adjustments in respect of change in deferred tax rate	<b>85</b>	(28)
Adjustments to tax in respect of prior years	<b>218</b>	106
<b>Total tax</b>	<b>(53)</b>	483
Tax on continuing operations	<b>(53)</b>	483
Tax on discontinued operations	–	–
<b>Tax (expense)/credit for the period</b>	<b>(53)</b>	483

Details of the deferred tax asset is shown in note 20.

The Finance (No. 2) Act 2015 introduced a reduction in the main rate of corporation tax from 20% to 19% from 1 April 2017 and from 19% to 18% from 1 April 2020. These reductions were substantively enacted on 26 October 2015.

The Finance Act 2016 introduced a further reduction in the main rate of corporation tax to 17% from 1 April 2020. This was substantively enacted on 6 September 2016. Accordingly, deferred tax balances that are expected to reverse after 1 April 2020 have been valued at the lower rate of 17%.

**15. Earnings per share****Basic earnings per share**

Basic earnings per share is calculated on the basis of dividing the profit/(loss) attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	12 months ended 31 March 2018 Continuing Operations	12 months ended 31 March 2018 Discontinued Operations	12 months ended 31 March 2017 Continuing Operations	12 months ended 31 March 2017 Discontinued Operations
Loss after tax attributable to ordinary shareholders (£'000s)	<b>(25,220)</b>	(1,345)	<b>(5,753)</b>	(226)
Weighted average number of shares in issue for basic EPS ('000s)	<b>76,179</b>	76,179	<b>70,272</b>	70,272
Employee share options ('000s)	<b>1,790</b>	1,790	<b>4,234</b>	4,234
Weighted average number of shares in issue for diluted EPS ('000s)	<b>77,969</b>	77,969	<b>74,506</b>	74,506
Basic and diluted loss per share	<b>(33.10)p</b>	(1.76)p	<b>(8.18)p</b>	(0.32)p

The total loss per share (continuing and discontinued operations) for 2018 is (34.86)p (2017: (8.50)p).

# Notes to the Financial Statements (continued)

Year ended 31 March 2018

## 15. Earnings per share (continued)

### Diluted earnings per share

The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of all outstanding share options. The potential ordinary shares are considered antidilutive as they decrease the loss per share. Therefore, diluted EPS is the same as basic.

The weighted average number of shares in issue for the year was 76,179,123 and the number of options outstanding was 6,930,748. If these were all exercised the cash raised would be equivalent to that which would be raised by issuing 1,789,851 shares at the average share price during the year. The difference between these figures is the weighted average number of dilutive potential ordinary shares of 77,968,974.

### Adjusted earnings per share

An adjusted earnings per share and a diluted adjusted earnings per share, which exclude significant items, have also been calculated as in the opinion of the Board this allows shareholders to gain a clearer understanding of the trading performance of the Group.

	12 months ended 31 March 2018 Continuing Operations	12 months ended 31 March 2018 Discontinued Operations	12 months ended 31 March 2017 Continuing Operations	12 months ended 31 March 2017 Discontinued Operations
Loss after tax attributable to ordinary shareholders (£'000s)	(25,220)	(1,345)	(5,753)	(226)
Add back significant items (£'000s) (note 6)	5,009	476	87	–
Adjusted loss after tax attributable to ordinary shareholders (£'000s)	(20,211)	(869)	(5,666)	(226)
Weighted average number of shares in issue for basic EPS ('000s)	76,179	76,179	70,272	70,272
Weighted average number of shares in issue for diluted EPS ('000s)	77,969	77,969	74,506	74,506
Adjusted loss per share	(26.53)p	(1.14)p	(8.06)p	(0.32)p

\*Prior year basic and diluted loss per share was (8.16)p after adjusting for tax on significant items

The total adjusted loss per share (continuing and discontinued operations) for 2018 is (27.67)p (2017: (8.38)p).

## 16. Goodwill

Goodwill acquired on business combinations is allocated at acquisition to the cash generating units that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	Group £'000s
<b>Cost</b>	
Carried forward balance 31 March 2017	<b>69,416</b>
Additions – Brighter Foods (note 33)	<b>5,031</b>
Impairment	<b>(4,492)</b>
<b>Carried forward balance 31 March 2018</b>	<b>69,955</b>

## 16. Goodwill (continued)

	31 March 2018 £'000s	31 March 2017 £'000s
Garrett Ingredients	905	4,411
Renshaw	57,796	57,796
Rainbow Dust Colours	6,223	6,223
Haydens Bakery - Chantilly Patisserie	–	986
Brighter Foods	5,031	–
<b>Carried forward</b>	<b>69,955</b>	<b>69,416</b>

### Assumptions:

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill may be impaired. The recoverable amount of any cash generating unit is determined based on the higher of fair value less costs of disposal and value-in-use calculations. The cashflows used in the value-in-use calculation are EBITDA (adjusted) performance less capital expenditure based on the latest Board approved forecasts in respect of the following three years. The key assumptions when forecasting cash flows are revenue growth, divisional contribution margin and overhead cost.

Revenue growth is forecast based on known or forecast customer sales initiatives taking into account customer business plans, new product development, category and marketing strategy. The average compound annual growth rate over the three years is 11%.

Divisional contribution margin is forecast based on the projected mix of revenue, raw material input costs and operational costs.

Overhead cost is forecast on the expected cost the division will incur.

### Long term growth rate assumptions:

For the purposes of impairment testing, the cashflows are extrapolated over 11 years reflecting the recent capital investment and allowing for the businesses to settle following implementation of turnaround plans. The growth rate beyond the first three years based on relevant economic data has been assessed at 2%. The discounted cash flow forecasts include discounted disposal proceeds based upon ten times the year eleven forecast EBITDA (adjusted).

### Discount rate assumptions:

The discount rate applied to the cash flows is 11% (2017: 11%). This rate has been increased from the Company's actual weighted average cost of capital of 5% to take account of the increased risk of being listed on AIM rather than the main market and represents a figure more in line with businesses operating within the food sector.

### Impairment charge:

An impairment charge of £4.5m was recognised during the period (2017: £1.6m). This comprised Garrett Ingredients of £3.5 million and Chantilly Patisserie (part of Haydens Bakery) of £1.0 million. The impairment reflected the challenging trading conditions faced by the businesses.

### Goodwill recognition:

The acquisition of Brighter Foods resulted in the recognition of £5.0 million of goodwill. See note 33 for full acquisition accounting.

### Sensitivity analysis:

An illustration of the sensitivity to reasonable possible changes in the discount rate assumption or the long term growth rate are shown below:

- An increase of 0.5% in the Group's weighted average cost of capital of 11% to 11.5% would cause an impairment of £1.2 million on the carrying value of goodwill on Renshaw.
- A reduction of 0.5% to the growth rate from 2.0% to 1.5% would cause an impairment of £0.5 million on the carrying value of goodwill on Renshaw.

The Board has considered these sensitivities but believe that, owing to trading expectations and a strong brand, the recoverable amount would support the value.

# Notes to the Financial Statements (continued)

Year ended 31 March 2018

## 16. Goodwill (continued)

	Book Value of Cash Generating Unit £'000s	Estimated Recoverable Amount/ Value in Use £'000s
Garrett Ingredients	1,092	1,092
Renshaw	68,132	69,069
Rainbow Dust Colours	6,628	7,038
Haydens Bakery - Chantilly Patisserie	175	175

## 17. Other intangible assets

	Customer Relationships £'000s	Computer Software £'000s	Development Costs £'000s	Group £'000s	Company £'000s
<b>Cost</b>					
At 1 April 2017	473	1,181	291	1,945	249
Reclassification	(32)	99	(67)	-	-
Acquired through business combinations	4,128	-	-	4,128	-
Additions	25	98	126	249	47
Disposals	(19)	(6)	-	(25)	-
At 31 March 2018	4,575	1,372	350	6,297	296
<b>Amortisation</b>					
At 1 April 2017	264	497	29	790	22
Reclassification	(2)	22	(20)	-	-
Charge	1,573	433	268	2,274	57
Disposals	(12)	(2)	-	(14)	-
At 31 March 2018	1,823	950	277	3,050	79
<b>Net book value at 31 March 2018</b>	<b>2,752</b>	<b>422</b>	<b>73</b>	<b>3,247</b>	<b>217</b>
<b>Cost</b>					
At 1 April 2016	473	786	-	1,259	-
Additions	-	395	291	686	249
At 31 March 2017	473	1,181	291	1,945	249
<b>Amortisation</b>					
At 1 April 2016	55	370	-	425	-
Charge	209	127	29	365	22
At 31 March 2017	264	497	29	790	22
<b>Net book value at 31 March 2017</b>	<b>209</b>	<b>684</b>	<b>262</b>	<b>1,155</b>	<b>227</b>

Intangible assets all relate to intangible assets acquired from third parties other than development costs which are generated internally and capitalised in accordance with IAS 38.

The intangible assets held by the Company at 31 March 2018 consist of £180k computer software and £37k development costs.

There is no indication of any impairment of these intangible assets.

## 18. Property, plant and equipment Group

	Land and Buildings £'000s	Plant and Equipment £'000s	Assets in the course of construction £'000s	Total £'000s
<b>Cost</b>				
At 1 April 2017	9,825	33,716	3,707	47,248
Reclassifications	1,251	2,456	(3,707)	–
Acquired through business combinations	197	2,053	–	2,250
Additions	5,089	7,466	866	13,421
Disposals	(114)	(817)	–	(931)
At 31 March 2018	16,248	44,874	866	61,988
<b>Depreciation</b>				
At 1 April 2017	4,829	18,487	–	23,316
Reclassifications	309	(309)	–	–
Acquired through business combinations	14	337	–	351
Charge	395	2,534	–	2,929
Disposals	(13)	(695)	–	(708)
Impairment charge*	–	6,002	–	6,002
At 31 March 2018	5,534	26,356	–	31,890
<b>Net book value at 31 March 2018</b>	<b>10,714</b>	<b>18,518</b>	<b>866</b>	<b>30,098</b>
<b>Cost</b>				
At 1 April 2016	9,477	27,088	342	36,907
Reclassifications	43	299	(342)	–
Additions	313	6,800	3,707	10,820
Disposals	(8)	(471)	–	(479)
At 31 March 2017	9,825	33,716	3,707	47,248
<b>Depreciation</b>				
At 1 April 2016	2,935	15,906	–	18,841
Charge	327	2,107	–	2,434
Disposals	(8)	(471)	–	(479)
Impairment charge*	1,575	945	–	2,520
At 31 March 2017	4,829	18,487	–	23,316
<b>Net book value at 31 March 2017</b>	<b>4,996</b>	<b>15,229</b>	<b>3,707</b>	<b>23,932</b>

\* An impairment review conducted in accordance with IAS36 'Impairment of assets' resulted in an impairment of fixed assets of £6.0m for Haydens Bakery (2017: £2.0m for R&W Scott, and £0.5m for Head Office).

# Notes to the Financial Statements (continued)

Year ended 31 March 2018

## 18. Property, plant and equipment (continued)

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

	31 March 2018 £'000s	31 March 2017 £'000s
Plant and equipment	7,661	4,990

Capital commitments in relation to property, plant and equipment are disclosed in note 29.

Details of assets which are secured against borrowings are detailed in note 23.

## Company

	Land and Buildings £'000s	Plant and Equipment £'000s	Total £'000s
<b>Cost</b>			
At 1 April 2017	553	3,629	4,182
Additions	–	68	68
Disposals	(55)	(25)	(80)
At 31 March 2018	498	3,672	4,170
<b>Depreciation</b>			
At 1 April 2017	11	1,802	1,813
Charge	10	418	428
Disposals	–	(3)	(3)
At 31 March 2018	21	2,217	2,238
<b>Net book value at 31 March 2018</b>	<b>477</b>	<b>1,455</b>	<b>1,932</b>
<b>Cost</b>			
At 1 April 2016	498	3,451	3,949
Additions	55	178	233
At 31 March 2017	553	3,629	4,182
<b>Depreciation</b>			
At 1 April 2016	–	745	745
Impairment charge	–	520	520
Charge	11	537	548
At 31 March 2017	11	1,802	1,813
<b>Net book value at 31 March 2017</b>	<b>542</b>	<b>1,827</b>	<b>2,369</b>

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

	31 March 2018 £'000s	31 March 2017 £'000s
Plant and equipment	–	–

## 19. Investments

### Company

Investments in shares of subsidiary undertakings:

	N Brown Foods Limited £'000s	R&W Scott Limited £'000s	Garrett Ingredients Limited £'000s	Haydens Bakery Limited £'000s	Eurofoods plc £'000s	Real Good Food Europe SA £'000s	Total Investments £'000s
At 31 March 2017	53,900	4,095	2,500	3,248	79	772	64,594
Impairment	–	(4,095)	(1,595)	(3,248)	(79)	(2)	(9,019)
<b>At 31 March 2018</b>	<b>53,900</b>	<b>–</b>	<b>905</b>	<b>–</b>	<b>–</b>	<b>770</b>	<b>55,575</b>

A review of the investments held by the Company was undertaken in the year. This resulted in an impairment charge of £9.0m (2017: £1.0m).

The methodology and assumptions used in reviewing the investments were the same as that used in the Goodwill review. See note 16 for full details.

The Group through Brighter Foods holds a 15% investment in Boka Foods Limited (£81k). Boka Foods is not a subsidiary of Real Good Food plc.

A full list of subsidiary undertakings (showing registered address and shares held) as at 31 March 2018 is disclosed below:

	Principal Activities	Description and Number of Shares Held	Proportion of Nominal Value of Shares Held
Hayden's Bakeries Limited*	Dormant	4,052,659 Ordinary £1	100%
Eurofoods plc*	Dormant	260,000 Ordinary £1	100%
		50,000 Preference £1	100%
N Brown Foods Limited*	Holding Company	28,248,096 Ordinary 50p	100%
Renshaw US Incorporated*	Cake Decoration Supplier	200 Ordinary \$1	100%
JF Renshaw Limited	Cake Decoration Supplier	15,685,164 Ordinary £1	100%
RGFC Dust Limited*	Holding Company	1 Ordinary £1	100%
Rainbow Dust Colours Limited	Cake Decoration Supplier	500 Ordinary £1	100%
R&W Scott Limited*	Food Ingredients Supplier	5,000,000 Ordinary £1	100%
Garrett Ingredients Limited*	Food Ingredients Supplier	2,500,000 Ordinary £1	100%
Whitworths Sugars Limited	Dormant	2 Ordinary £1	100%
Haydens Bakery Limited*	Premium Bakery	2,000,00 Ordinary £1	100%
Renshaw Europe NV*	Cake Decoration Supplier	461,500 Ordinary €1	100%
Brighter Foods Limited	Food Ingredients Supplier	506,000 Ordinary £1	84.33%

\* Held directly by Real Good Food plc.

The registered name of Garretts Ingredients Limited was subsequently changed to Real Good Food Ingredients Limited. The registered name of Hayden's Bakeries Limited was subsequently changed to RGF Devizes Limited. See note 34.

All entities have their registered office at 61 Stephenson Way, Wavertree, Liverpool L13 1HN (changed on 12th July 2018), except for the following:

Renshaw Europe NV registered office at Rue Scailquin 60 Boite 29 – 1210 Bruxelles (Sait-Josse-Ten-Noode)

Renshaw US Incorporated registered office at 400 Commons Way, Rockaway, New Jersey, USA

Brighter Foods Limited registered office at 17-18 2nd Floor, Agincourt Square, Monmouth NP25 3DY

# Notes to the Financial Statements (continued)

Year ended 31 March 2018

## 20. Deferred taxation liability/(asset)

The gross movements on the deferred tax account are as follows:

	31 March 2018 Group £'000s	31 March 2018 Company £'000s	31 March 2017 Group £'000s	31 March 2017 Company £'000s
Opening position	(157)	(1,274)	369	(1,462)
Arising on business combination	872	-	-	-
Charge/(credit) to income statement	191	98	(352)	362
(Credit) to other comprehensive income – defined benefit pension scheme movement	(100)	(100)	-	-
Charge to equity/(credit) - deferred tax on share based payments	100	100	(174)	(174)
<b>Closing position</b>	<b>906</b>	<b>(1,176)</b>	<b>(157)</b>	<b>(1,274)</b>
Shown as follows:				
Liabilities	2,035	-	1,278	-
Assets	(1,129)	(1,176)	(1,435)	(1,274)
	906	(1,176)	(157)	(1,274)

## Group Deferred tax assets

The deferred tax balances arise from temporary differences in respect of the following:

	Losses £'000s	Options £'000s	Provisions £'000s	Pension scheme £'000s	Total £'000s
At 31 March 2017	-	(138)	(177)	(1,120)	(1,435)
Charge/(credit) to income	-	3	177	126	306
(Credit) to other comprehensive income	-	-	-	(100)	(100)
Charge to equity	-	100	-	-	100
<b>At 31 March 2018</b>	<b>-</b>	<b>(35)</b>	<b>-</b>	<b>(1,094)</b>	<b>(1,129)</b>
Within 12 months	-	-	-	-	-
Greater than 12 months	-	(35)	-	(1,094)	(1,129)



**20. Deferred taxation liability/(asset) (continued)****Deferred tax provisions**

	Intangible Assets £'000s	Tangible Assets £'000s	Total £'000s
At 31 March 2017	1,205	73	1,278
Charge / (credit) to income statement	(480)	365	(115)
Arising on business combinations (note 33)	872	–	872
<b>At 31 March 2018</b>	<b>1,597</b>	<b>438</b>	<b>2,035</b>

There were £13.2 million of unused tax losses on which deferred tax of £2.3 million is not recognised due to uncertainty over when those losses will be utilised. The losses have no expiration date.

**Company**

The deferred tax balances arise from temporary differences in respect of the following:

	Provisions £'000s	Pension Scheme £'000s	Tangible Assets £'000's	Share Options £'000s	Total £'000s
At 31 March 2017	(20)	(1,120)	4	(138)	(1,274)
Charge/(credit) to income statement	(27)	126	(4)	3	98
Charge/(credit) to other comprehensive income	–	(100)	–	–	(100)
Charge/(credit) to equity	–	–	–	100	100
<b>At 31 March 2018</b>	<b>(47)</b>	<b>(1,094)</b>	<b>–</b>	<b>(35)</b>	<b>(1,176)</b>
Within 12 months	–	–	–	–	–
Greater than 12 months	(47)	(1,094)	–	(35)	(1,176)

**21. Inventories**

	31 March 2018 Group £'000s	31 March 2018 Company £'000s	31 March 2017 Group £'000s	31 March 2017 Company £'000s
Materials	5,738	–	8,159	–
Work in progress	364	–	45	–
Finished goods	4,480	–	5,119	–
	<b>10,582</b>	<b>–</b>	<b>13,323</b>	<b>–</b>
Continuing business	<b>10,582</b>	<b>–</b>	<b>12,954</b>	<b>–</b>
Discontinued business	–	–	369	–

Inventories totalling £10,582k (2017 : £13,323k) are valued at the lower of cost and net realisable value. The Directors consider that this value represents the best estimate of the fair value of those inventories net of costs to sell.

# Notes to the Financial Statements (continued)

Year ended 31 March 2018

## 22. Trade and other receivables

	31 March 2018 Group £'000s	31 March 2018 Company £'000s	31 March 2017 Group £'000s	31 March 2017 Company £'000s
<b>Current trade and other receivables</b>				
Trade receivables	14,556	3	13,584	–
Less: provision for impairment of receivables	(135)	–	(68)	–
Net trade receivables	14,421	3	13,516	–
Other receivables	408	150	1,300	31
Amounts owed by Group undertakings	–	76,692	–	35,871
Prepayments	467	63	1,200	220
<b>Total</b>	<b>15,296</b>	<b>76,908</b>	16,016	36,122
Amount due within 12 months	15,296	3,370	16,016	251
Amount due after 12 months	–	73,538	–	35,871
<b>Total</b>	<b>15,296</b>	<b>76,908</b>	16,016	36,122

At 31 March 2018, £13.2m of trade receivables were pledged as security for the invoice discounting facility with Lloyds Banking Group. This was in relation to the following subsidiaries; J F Renshaw, Garrett Ingredients, R&W Scott, Rainbow Dust Colours and Haydens Bakery, and was supplied on GBP, USD and EUR receivables.

### Provision for impairment of receivables

	31 March 2018 Group £'000s	31 March 2018 Company £'000s	31 March 2017 Group £'000s	31 March 2017 Company £'000s
At 31 March 2017	(68)	–	(204)	–
Charge for period (note 8)	(146)	–	92	–
Uncollectable amount written off	79	–	44	–
<b>At 31 March 2018</b>	<b>(135)</b>	<b>–</b>	(68)	–

The creation and release of the provision for impaired receivables has been included in the income statement within administration costs.

Trade receivables primarily represent blue chip customers with good credit ratings. In assessing and granting credit the Group relies on professional credit rating agencies and has credit insurance policies in place for added protection. There is no concentration of credit risk within trade receivables as the Group trades with a broad base of customers primarily within the UK, over various different sectors.

The Group recognised a charge of £146k (2017: credit of £92k) for impairment of its trade receivables during the period, to reflect debts significantly past their due dates. This loss has been included in operating profit in the Statement of Comprehensive Income.

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value. The Directors consider the maximum credit risk at the balance sheet date is equivalent to the carrying value of trade and other receivables, less any amounts claimable under the Group's credit insurance policies.

## 22. Trade and other receivables (continued)

Trade receivables of £3.7 million were past due but not impaired. The ageing analysis of these receivables is as follows:

	31 March 2018 Group £'000s	31 March 2017 Group £'000s
Up to 30 days past due	2,967	1,846
One to three months past due	555	126
Over three months past due	216	122
	<b>3,738</b>	2,094

## 23. Borrowings and capital management

	31 March 2018 Group £'000s	31 March 2018 Company £'000s	31 March 2017 Group £'000s	31 March 2017 Company £'000s
<b>Secured borrowings at amortised cost</b>				
Bank term loans	1,750	1,750	2,500	2,500
Revolving credit facilities	8,669	–	9,333	–
Hire purchase	6,406	–	4,243	–
Investor loans*	21,398	21,398	–	–
Investor loans - cash collateral	2,000	2,000	–	–
Government grants	327	–	–	–
	<b>40,550</b>	<b>25,148</b>	16,076	2,500
Amount due for settlement within 12 months	24,160	13,894	11,375	1,000
Amount due for settlement after 12 months	16,390	11,254	4,701	1,500
<b>Total</b>	<b>40,550</b>	<b>25,148</b>	16,076	2,500

\* Accrued interest of £0.7m at 31 March 2018 is not shown in the above Investor loans, this is shown within accruals in payables.

Government grants represents the amount of grants received for which the criterion to ensure that repayment is not required has not yet been met. Grant monies in respect of which the criteria have been met are included in operating income.

All existing shareholder loans were renegotiated in June 2018 to require repayment in June 2020.

### Features of the Group's borrowings are as follows:

The Group's financial instruments comprised cash, a term loan, hire purchase and finance leases, a revolving credit facility, an overdraft, investor loans and various items arising directly from its operations such as trade payables and receivables. The main purpose of these financial instruments is to finance the Group's operations. The government grant is specific to Brighter Foods.

The main risks from the Group's financial instruments are interest rate risk and liquidity risk. Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due.

The Group also has some currency exposure in relation to its Euro and US Dollar commodity purchases. However, this is mitigated by matching in part against foreign currency sales. The Board reviews and agrees policies, which have remained substantially unchanged for the year under review, for managing these risks.

The Group's policies on the management of interest rate, liquidity and currency exposure risks are set out in the Report of the Directors.

# Notes to the Financial Statements (continued)

Year ended 31 March 2018

## 23. Borrowings and capital management (continued)

During the year ended 31 March 2018 the Group continued with the borrowing facilities in place and secured loans from investors. The borrowings comprised:

- A term loan with Lloyds Banking Group (“LBG”) repayable in quarterly instalments of £250k with a final repayment in October 2018. Interest on this loan is charged at 2.75% above Bank of England base rate (Base Rate).
- Invoice discount facility of £20 million with LBG on a revolving basis with a minimum term of 12 months and a six-month notice period. This facility is secured against the debtors across the whole of the Group’s UK businesses (excluding Brighter Foods) with an interest rate of 1.5% above Base Rate.
- An overdraft facility with LBG of up to £2.0m with two major shareholders (Napier Brown Holdings and Omnicane Limited) each puttingting £1.0m into an account as security. The interest rate on the overdraft is at 3.5% above Base Rate.
- The Group also secured facilities against specific plant and machinery with LBG and ABN Amro Lease NV totalling £6.3m. The facilities interest payable is varied per specific agreement, but is generally between 3.5% and 4.0%.

The three major shareholders, NB Holdings Limited, Omnicane Investors Limited and certain funds managed by Downing LLP supported the business and provided significant funding to the Group by way of loans.

The loans are summarised as follows:

Date	Amount	Method of Funding	Major Shareholder(s)
March 2018	£4.0m*	Unsecured loan notes	NB (£1.7m), Omnicane (£1.7m) Downing (£0.6m)
January 2018	£3.0m	Unsecured loan notes	NB (£1.3m), Omnicane (£1.3m) Downing (£0.4m)
September 2017	£4.0m	Loan Facility & loan notes Secured on specific chattel assets	NB (£1.3m), Omnicane (£1.3m) Downing (£1.3m)
August 2017	£2.0m	Loan facility (applied as collateral for bank overdraft)	NB (£1.0m), Omnicane (£1.0m)
June 2017	£4.0m	Investor loans	NB (£2.0m), Omnicane (£2.0m)
June 2017	£7.3m**	Loan notes	Downing
<b>TOTAL</b>	<b>£24.3m</b>		

\* £0.9m of the funding agreed in March 2018 was received in April 2018

\*\* Interest is payable on a quarterly basis to the MI Downing Monthly Income Fund up to a principal amount of £0.9m

Lloyds Bank plc has a debenture incorporating a floating charge over the undertaking and all property and assets present and future including goodwill, book debts, uncalled capital, buildings, fixtures, intangible assets, fixed plant and machinery. In addition, the banking arrangements with Lloyds Bank plc contain certain cross-guarantees.

### Post-year end borrowings

- In May 2018 the Company secured further funding from each of its major shareholders totalling £8.5m. NB and Omnicane each provided £3.3m and Downing provided £1.9m (with a further £0.2m to be provided at the sole discretion of Downing prior to 30 September 2018). This instrument has since, with shareholder approval, been converted into a “Convertible Loan Note” instrument with a conversion price of 5 pence. This instrument accrues interest at 12%, maturing in full on 17 May 2021, unless converted before that date. Should the shareholders exercise the right to convert the “CLN” into Ordinary shares, this would result in dilution of current shareholdings.
- A further £1.0m was raised through an Open Offer in August 2018, with a further 20,115,190 shares admitted on 17 August 2018.
- Following the sales of Garrett Ingredients Limited and Haydens Bakeries Limited the invoice discount facility with LBG was reduced to £10 million.
- The residue of the term loan of £1.8 million at 31 March 2018 was repaid in full in September 2018 with the proceeds of the Haydens disposal.
- The terms of the investor loans were amended post the year end subject to the “Amendment Deed” with all loans (except the Convertible Loan Notes) accruing interest at a rate of 10%, repayable with the principal amount on 30 June 2020.

## 23. Borrowings and capital management (continued)

### Liquidity risk management

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Board reviews the Group's liquidity position on a monthly basis and monitors its forecast and actual cash flows against maturing profiles of its financial assets and liabilities.

The following table details the Group's maturity profile of its financial liabilities:

	Less than 1 month £'000s	1-3 months £'000s	3 months to 1 year £'000s	1-5 years £'000s	5+ years £'000s	Total £'000s
<b>2018</b>						
Trade and other payables	13,346	6,008	2,864	267	1	22,486
Bank term loans	250	–	1,500	–	–	1,750
Revolving credit facilities	–	–	8,669	–	–	8,669
Investor loans	–	10,144	2,000	11,254	–	23,398
Government grants	5	12	32	198	80	327
Hire purchase	152	267	1,129	4,858	–	6,406
NCI put option liability	–	–	–	4,796	–	4,796
	<b>13,753</b>	<b>16,431</b>	<b>16,194</b>	<b>21,373</b>	<b>81</b>	<b>67,832</b>
Interest	35	640	684	1,671	–	3,030
<b>Total</b>	<b>13,788</b>	<b>17,071</b>	<b>16,878</b>	<b>23,044</b>	<b>81</b>	<b>70,862</b>

	Less than 1 month £'000s	1-3 months £'000s	3 months to 1 year £'000s	1-5 years £'000s	5+ years £'000s	Total £'000s
<b>2017</b>						
Trade and other payables	11,022	3,101	1,120	–	–	15,243
Bank term loans	–	250	750	1,500	–	2,500
Revolving credit facilities	–	–	9,333	–	–	9,333
Hire purchase	87	260	695	3,201	–	4,243
	<b>11,109</b>	<b>3,611</b>	<b>11,898</b>	<b>4,701</b>	<b>–</b>	<b>31,319</b>
Interest	7	43	295	318	–	663
<b>Total</b>	<b>11,116</b>	<b>3,654</b>	<b>12,193</b>	<b>5,019</b>	<b>–</b>	<b>31,982</b>

The profile of the trade payables has been taken as being consistent with the Group's payment terms to suppliers.

# Notes to the Financial Statements (continued)

Year ended 31 March 2018

## 23. Borrowings and capital management (continued)

### Analysis of market risk sensitivity

#### Currency risks:

The Group is exposed to currency risks on purchases of commodities from USA and Europe. The risk associated with these purchases is mitigated by sales also made to customers in these countries, however to the extent that these do not cover each other there is a risk of exposure to the Group.

The effect of the exposure is calculated as being:

- With an excess of \$ debtors to \$ creditors, a 10% strengthening of the US dollar would result in an increase in pre-tax profits of £134k. A 10% weakening of the US dollar would result in a decrease of pre-tax profits of £109k.
- With an excess of € creditors to € debtors a 10% strengthening of the Euro would result in a decrease in pre-tax profits of £209k. A 10% weakening of the Euro would result in a increase of pre-tax profits of £171k.

#### Interest rate risks:

The Group has an exposure to interest rate risk arising from borrowings based upon the Bank of England base rate. The impact of a 1% increase in the applicable interest rates at the balance sheet date on the variable rate debt carried at that date would, all other factors remaining unchanged, have resulted in a decrease in pre-tax profits of £104k.

### Obligation under finance leases

	31 March 2018 £'000s	31 March 2017 £'000s
Finance lease liabilities - minimum lease payments		
Due within one year	1,764	1,042
Due within one to five years	5,128	3,201
	6,892	4,243
Future finance charges on finance leases	(486)	(365)
Present value of finance lease liabilities	6,406	3,878
The present value of finance lease liabilities is as follows:		
Due within one year	1,548	1,010
Due within one to five years	4,858	2,868
	6,406	3,878

It is the Group's policy to lease certain property, plant and equipment under finance leases. For the period ended 31 March 2018 the average effective borrowing rate was 4.0% (2017: 4.0%). Interest rates are fixed at the contract dates. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in sterling.

The fair value of the Group's lease obligations approximates to their carrying amount.

## 24. Trade and other payables

	31 March 2018 Group £'000s	31 March 2018 Company £'000s	31 March 2017 Group £'000s	31 March 2017 Company £'000s
<b>Amount due within one year</b>				
Trade payables	11,419	624	10,634	238
Social security	849	95	913	99
Deferred consideration	4,520	–	–	–
Accruals	5,253	2,506	3,336	1,594
Amounts owed to Group undertakings	–	72,837	–	39,896
Other payables	445	25	360	–
<b>Total</b>	<b>22,486</b>	<b>76,087</b>	15,243	41,827

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

The deferred consideration of £4.5million is in relation to the acquisition of Brighter Foods, payable (and paid) in May 2018.

The Directors consider that the carrying amount of trade payables approximates to their fair value.

# Notes to the Financial Statements (continued)

Year ended 31 March 2018

## 25. Financial instruments

Set out below are the Group's financial instruments. The Directors consider there to be no difference between the carrying value and fair value of the Group's financial instruments.

	31 March 2018 Group £'000s	31 March 2018 Company £'000s	31 March 2017 Group £'000s	31 March 2017 Company £'000s
<b>Loans and receivables at amortised cost</b>				
Cash and cash equivalents	2,731	477	464	–
Cash collateral	2,000	2,000	–	–
Trade receivables	14,421	3	13,516	–
Other debtors	408	150	1,300	–
Amounts owed by Group undertakings	–	76,692	–	35,871
	<b>19,560</b>	<b>79,322</b>	15,280	35,871
<b>Financial liabilities at amortised cost</b>				
Trade creditors	11,419	624	10,634	238
Accruals	5,253	2,506	3,336	1,594
Other payables	445	26	360	–
Bank term loans	1,750	1,750	2,500	2,500
Revolving credit facilities	8,669	–	9,333	–
Hire purchase	6,406	–	4,243	–
Investor loans	23,398	23,398	–	–
Deferred consideration	4,520	–	–	–
Amounts owed to Group undertakings	–	72,837	–	39,896
	<b>61,860</b>	<b>101,141</b>	30,406	44,228
<b>Financial liabilities at fair value through profit and loss</b>				
Forward foreign exchange contracts	–	–	146	–
NCl put option	4,796	–	–	–
	<b>4,796</b>	<b>–</b>	146	–
<b>Total</b>	<b>66,656</b>	<b>101,141</b>	30,552	44,228

## Capital management

The Group is subject to the risk that its capital structure will not be sufficient to support the growth of the business. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group's approach to capital management is to fund its working capital requirements by trading generated cash flows supplemented by asset-based lending, which is the most favourable source of finance available to the business at this time, to assist in managing its seasonal requirements.

The three major shareholders, NB Holdings Limited, Omnicane Investors Limited and certain funds managed by Downing LLP supported the business and provided significant funding (£23.4million) to the Group by way of loans.



## 26. Share capital

	Number of Shares 2018	Number of Shares 2017	31 March 2018 £'000s	31 March 2017 £'000s
<b>Allotted, called up and fully paid equity share capital</b>				
At 31 March 2017	<b>70,563,501</b>	70,066,903	<b>1,411</b>	1,402
Issued in the year	<b>7,885,740</b>	496,598	<b>158</b>	9
<b>At 31 March 2018</b>	<b>78,449,241</b>	70,563,501	<b>1,569</b>	1,411

Ordinary shares carry the right to participate in dividends and each share entitles the holder to one vote on matters requiring shareholder approval.

There are 6,930,748 shares reserved for issue under options, with expiry dates beyond 2018, outstanding at the end of the year.

Downing subscribed for Ordinary shares representing 10% of the share capital in July 2017 at a price of 35 pence per share, raising a further £2.75 million. Admission of a total of 7,844,924 new ordinary shares occurred on 5 July 2017 and 24 July 2017. A further 40,816 shares were issued in April 2017 as a result of share options being exercised.

## 27. Reserves

**Share premium:** The share premium reserve comprises the premium paid over the nominal value of shares for shares issued.

**Share option reserve:** The share option reserve represents the cumulative share option charge.

**Other reserve:** Long-term liability arising from non-controlling interest payable upon exercise of the Brighter Foods put option (see note 33).

**Retained earnings:** The retained earnings reserve represents the cumulative surplus or deficit of the Group.

**Foreign exchange translation reserve:** The foreign exchange reserve represents the difference generated when converting profit and loss results at average rates and balance sheets at year end closing rates.

**Non-controlling interest:** The non-controlling interest represents the 15.67% of Retained Earnings that are owned by the management of Brighter Foods Limited, and not Real Good Food plc.

# Notes to the Financial Statements (continued)

Year ended 31 March 2018

## 28. Equity-settled share option scheme

The Company has a share option scheme for certain employees of the Group. Options are exercisable at a price equal to the average quoted market price of the Company's shares at the date of grant. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options are forfeited if the option holder leaves the Group before the options vest.

Details of the share options outstanding during the year are as follows:

	31 March 2018 Number of Share Options	31 March 2018 Weighted Average Exercise Price (£)	31 March 2017 Number of Share Options	31 March 2017 Weighted Average Exercise Price (£)
Outstanding at the beginning of the period	9,171,350	0.20	9,969,454	0.20
Granted during the year	-	-	-	-
Exercised during the year	(40,816)	(0.25)	(496,598)	(0.05)
Forfeited during the year	(2,199,786)	(0.13)	(301,506)	(0.46)
<b>Outstanding at the end of the period*</b>	<b>6,930,748</b>	<b>0.23</b>	9,171,350	0.20
Exercisable at the end of the period	6,322,757	0.21	5,899,624	0.17

\* 3,817,726 options granted to P. Totte not exercisable until share price exceeds £1.00.

All of the outstanding options have an exercise price within the range of £0.00 - £0.50 in both 2018 and 2017.

No new options have been issued during this current period. At the time of the issue of options the inputs into the Black-Scholes option pricing model were as follows:

Expected volatility	35%
Expected life	3 years
Risk-free rate	2.88%
Dividend yield	Nil

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restriction, and behavioural considerations.

Owing to the number of forfeited options during the year, the impact on the income statement in relation to the share options was a credit of £5k. This is shown in administration expenses in the Company as the majority of the charge relates to employees of the Company.

## 29. Commitments

### Operating lease arrangements

At the balance sheet date the Group had total future minimum lease payments under non-cancellable operating leases for each of the following periods:

	31 March 2018 £'000s	31 March 2017 £'000s
Due within one year	441	757
Due between one and five years	672	1,222

Operating lease payments represent rentals payable by the Group in respect of its properties and machinery. For properties, the lease periods are negotiated for an average of 15 years with five-year reviews, and for machinery the lease periods vary up to five years.

Operating lease payments payable by the Company are considered immaterial for these accounts.

### Capital commitments

	31 March 2018 £'000s	31 March 2017 £'000s
Commitments for the acquisition of property, plant and equipment	550	5,954

## 30. Related party transactions

Consultancy fees paid to the following entities in which Directors hold a beneficial interest. Fees payable relate to additional services provided to the Group by the Directors.

	12 months ended 31 March 2018 £'000s	12 months ended 31 March 2017 £'000s
Osmond Consultancy Limited	-	220
P Totté	30	10
Menton Investments	-	5
P G Ridgwell	18	55
The Salter Consultancy LLP*	31	94
More Hours Limited*	55	-
	<b>134</b>	<b>384</b>

\* includes expenses in the current year of £3k to P Salter (2017: £11k) and £1k to Hugh CL Cawley

A loan of £39k provided to P Totté in the year to March 2016 was repaid in June 2017

# Notes to the Financial Statements (continued)

Year ended 31 March 2018

## 30. Related party transactions (continued)

### Charges of Group services to related parties

Transactions between the Company and its subsidiaries are as follows:

	12 months ended 31 March 2018 £'000s	12 months ended 31 March 2017 £'000s
J F Renshaw Limited	720	720
Haydens Bakery Limited	360	360
Rainbow Dust Colours Limited	60	60
R&W Scott Limited	240	240
Garrett Ingredients Limited	120	120
	<b>1,500</b>	1,500

### Amounts due to subsidiaries

	12 months ended 31 March 2018 £'000s	12 months ended 31 March 2017 £'000s
J F Renshaw Limited	59,019	58,352
Rainbow Dust Colours Limited	7,729	5,768
Eurofoods plc	69	–
Hayden's Bakeries Limited	1,248	–
R&W Scott Limited	2	–
Brighter Foods Limited	4,770	–
	<b>72,837</b>	<b>64,120</b>

JF Renshaw Limited is a related party because it is a 100% owned subsidiary of Napier Brown Foods Limited which is a 100% owned subsidiary of Real Good Food plc.

### 30. Related party transactions (continued)

#### Amounts due from subsidiaries

	12 months ended 31 March 2018 £'000s	12 months ended 31 March 2017 £'000s
Renshaw Europe SA	1,082	1,082
JF Renshaw Limited	2,021	–
Rainbow Dust Colours Limited	167	–
Haydens Bakery Limited	9,433	4,612
Renshaw USA Incorporated	288	723
Napier Brown Foods Limited	53,139	45,801
RGFC Dust Limited	6,345	8,255
R&W Scott Limited	1,364	809
Garrett Ingredients Limited	2,853	204
	<b>76,692</b>	<b>61,486</b>

### 31. Pensions arrangements

Defined Contribution Scheme. The Group operates a defined contribution scheme for all employees, including provision to comply with auto-enrolment requirements laid down by law.

In addition, the Company operates one defined benefits scheme which was closed to new members in 2000. From 1 April 2016 the Company annual contributions were agreed at £320k for 11 years and eight months, increasing at 4% per annum each April. The Company expects to pay £346k to the Plan for the year commencing 1 April 2018 (2018: £333k). The defined benefit scheme is funded by the Company.

For the purposes of IAS 19 the data provided for the 31 March 2015 actuarial valuation has been approximately updated to reflect defined benefit obligations on the accounting basis at 31 March 2018. This has resulted in a deficit in the Plan of £6,440k.

It is the policy of the Company to recognise all actuarial gains and losses in the year in which they occur in the Statement of Comprehensive Income.

#### Present values of defined benefit obligations, fair value of assets and deficit

	31 March 2018 £'000s	31 March 2017 £'000s	31 March 2016 £'000s	31 March 2015 £'000s	31 March 2014 £'000s
Present value of defined benefit obligation	19,969	19,840	21,094	21,799	19,033
Fair value of Plan assets	(13,529)	(13,946)	(15,013)	(16,111)	(15,360)
Deficit/(surplus) in Plan	6,440	5,894	6,081	5,688	3,673
Gross amount recognised	6,440	5,894	6,081	5,688	3,673
Deferred tax at 17%*	(1,095)	(1,120)	(1,155)	(1,138)	(735)
Net liability	5,345	4,774	4,926	4,550	2,938

\* Deferred tax rate 2016 & 2017: 19%, 2014 & 2015: 20%

# Notes to the Financial Statements (continued)

Year ended 31 March 2018

## 31. Pensions arrangements (continued)

### Reconciliation of opening and closing balances of the present value of the defined benefit obligations

	31 March 2018 £'000s	31 March 2017 £'000s
Defined benefit obligation at start of period	19,840	21,094
Interest cost	553	754
Actuarial (gains)/losses	367	2,499
Settlements	–	(2,060)
Past service loss/(gains)	115	(1,584)
Benefits paid	(906)	(863)
Defined benefit obligation at end of period	19,969	19,840

### Reconciliation of opening and closing balances of the fair value of Plan assets

	31 March 2018 £'000s	31 March 2017 £'000s
Fair value of Plan assets at start of period	13,946	15,013
Interest income on Plan assets	389	538
Actuarial (losses)/gains	(232)	652
Contributions paid by the Group	332	920
Settlements	–	(2,314)
Benefits paid, death in service insurance premiums and expenses	(906)	(863)
Fair value of Plan assets at end of period	13,529	13,946

The actual return on the Plan assets over the period ended 31 March 2018 was £157k (2017: £1.2m).

### Total expense recognised in the Statement of Comprehensive Income within other finance income

	31 March 2018 £'000s	31 March 2017 £'000s
Interest on liabilities	553	754
Interest on assets	(389)	(538)
Net interest cost	164	216
Past service (income)/cost	115	(1,330)
Total (income)/cost	279	(1,114)

### 31. Pensions arrangements (continued)

#### Statement of recognised income and expenses

	31 March 2018 £'000s	31 March 2017 £'000s
Actuarial (losses)/gains on the Plan assets	<b>(232)</b>	652
Experience gains and losses arising on the Plan liabilities	–	(103)
Actuarial gains/(losses) arising on the Plan liabilities from changes in demographic assumptions	<b>114</b>	228
Actuarial gains/(losses) arising on the Plan liabilities from changes in financial assumptions	<b>(481)</b>	(2,624)
<b>Total amount recognised in Statement of Other Comprehensive Income</b>	<b>(599)</b>	(1,847)

#### Assets

	31 March 2018 £'000s	31 March 2017 £'000s	31 March 2016 £'000s
UK equity	<b>1,511</b>	1,907	1,608
Overseas equity	<b>2,952</b>	4,120	4,462
Absolute return fund	<b>3,136</b>	3,732	3,826
Corporate Bonds	<b>1,105</b>	1,139	1,020
Gifts	<b>945</b>	1,646	2,104
Property	<b>83</b>	152	72
Cash	<b>1,122</b>	284	473
Alternative assets	<b>2,675</b>	2,671	1,448
Current assets	–	610	–
Current liabilities	–	(2,315)	–
<b>Total assets</b>	<b>13,529</b>	13,946	15,013

None of the fair values of the assets shown above includes any of the Group's own financial instruments or any property occupied by, or other assets used by, the Group. All assets stated above have a quoted market price in an active market.

#### Assumptions

	12 months ended 31 March 2018 % per annum	12 months ended 31 March 2017 % per annum	12 months ended 31 March 2016 % per annum	12 months ended 31 March 2015 % per annum
Inflation	<b>3.10</b>	3.20	2.80	2.90
Salary increases	–	–	–	–
Rate of discount	<b>2.65</b>	2.85	3.65	3.45
Allowance for pension in payment increases	<b>3.00</b>	3.10	2.70	2.80
Allowance for revaluation of deferred pensions	<b>2.10</b>	2.20	1.80	1.90
Allowance for commutation of pension for cash at retirement	<b>90% of max allowance</b>	90% of max allowance	90% of max allowance	90% of max allowance

# Notes to the Financial Statements (continued)

Year ended 31 March 2018

## 31. Pensions arrangements (continued)

The mortality assumptions adopted at 31 March 2018 imply the following life expectancies:

Male retiring at age 65 in 2018	22 years
Female retiring at age 65 in 2018	24 years
Male retiring at age 65 in 2038	23 years
Female retiring at age 65 in 2038	25 years

The long-term expected rate of return on cash is determined by reference to UK long dated government bond yields at the balance sheet date. The long-term expected return on bonds is determined by reference to UK long dated government and corporate bond yields at the balance sheet date. The long-term expected rate of return on equities is based on the rate of return on bonds with an allowance for outperformance.

The weighted - average duration of the defined benefit obligation at 31 March 2018 was 15 years (2017: 14 years).

### Expected long-term rates of return

The expected long term rates of return applicable at the start of each period are as follows:

	12 months ended 31 March 2018 £'000s	12 months ended 31 March 2017 £'000s	12 months ended 31 March 2016 £'000s	12 months ended 31 March 2015 £'000s	12 months ended 31 March 2014 £'000s
Fair value of assets	13,529	13,946	15,013	16,111	15,360
Defined benefit obligation	(19,969)	(19,840)	(21,094)	(21,799)	(19,033)
Surplus/(deficit) in scheme	(6,440)	(5,894)	(6,081)	(5,688)	(3,673)
Experience adjustment on scheme assets	(232)	652	(1,122)	885	(382)
Experience adjustment on scheme liabilities	-	(103)	-	-	-

## Risks

The scheme is exposed to a number of risks, including:

**Asset volatility:** the Plan's defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields; however, the Plan invests significantly in equities. These assets are expected to outperform corporate bonds in the long-term but provide volatility and risk in the short term.

**Changes in bond yields:** a decrease in corporate bond yields would increase the Plan's defined benefit obligation; however, this would be partially offset by an increase in the value of the Plan's bond holdings.

**Inflation risk:** a proportion of the Plan's defined benefit obligation is linked to inflation; therefore, higher inflation will result in a higher defined benefit obligation (subject to the appropriate caps in place). The majority of the Plan's assets are either unaffected by inflation, or only loosely correlated with inflation; therefore, an increase in inflation would also increase the deficit.

**Life expectancy:** if Plan members live longer than expected, the Plan's benefits will need to be paid for longer, increasing the Plan's defined benefit obligation.

The Trustees and Company manage risks in the Plan through the following strategies:

**Diversification:** investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.

**Investment strategy:** the Trustees are required to review their investment strategy on a regular basis.



### 31. Pensions arrangements (continued)

#### Sensitivity analysis

The impact to the value of the defined benefit obligation of a reasonably possible change to one actuarial assumption, holding all other assumptions constant, is presented in the table below:

Actuarial Assumption	Reasonably Possible Change	Obligation Increase £'000's	Obligation Decrease £'000's
Discount rate	(+/- 0.5%)	1,433	1,285
RPI inflation	(+/- 0.5%)	390	330
Assumed life expectancy	(+/-) 1 Year	700	692

### 32. Discontinued operations

On 31 October 2017, Garretts Ingredients Nutrition (a division of Garretts Ingredients Limited) ceased trading. This was consistent with the Group's strategy and allows it to focus on its remaining businesses. The results of the ceased business are shown below. This is the only discontinued operation referred to within these accounts and the subsequent notes.

The post-tax loss on disposal of discontinued operations follows:

31 March  
2017  
£'000s

<b>Cash consideration received (£1)</b>	–
<b>Net assets disposed of:</b>	
Property, Plant and Equipment	116
Intangibles (Software)	14
Other financial assets	12
Total Assets disposed of	142
<b>Pre-tax loss on disposal of discontinued operation</b>	142
Related tax expense	–
<b>Loss on disposal of discontinued operation</b>	142

The trade payables and trade receivables were wound down following the closure of the business. At 31st March 2018, there were still £290k of trade payables outstanding. The result of the discontinued business contained within these accounts is:

31 March  
2018  
£'000s

31 March  
2017  
£'000s

Revenue	284	472
Cost of sales	(698)	(446)
<b>(Loss) / income</b>	<b>(414)</b>	26
Distribution	(51)	(53)
Administration	(404)	(199)
Exceptional costs (note 6)	(476)	–
<b>Operating loss</b>	<b>(1,345)</b>	(226)

# Notes to the Financial Statements (continued)

Year ended 31 March 2018

## 32. Discontinued operations (continued)

The loss per share from the discontinued operations are below. Please see note 15 for full details.

	31 March 2018	31 March 2017
Basic and diluted loss per share	(1.76)p	(0.32)p

The statement of cash flow includes the following amounts in relation to the discontinued operation:

	31 March 2018 £'000s
Operating activities	(1,345)
Investing activities	-
Financing activities	-
Net cash from discontinued operations	(1,345)

## 33. Acquisitions

Real Good Food plc (Group) acquired Tywyn-based Brighter Foods Limited on 4th April 2017; a food manufacturing company, with Robin Williams remaining as CEO. Real Good Food plc acquired a 84.33% interest in Brighter Foods, with senior management of Brighter Foods retaining the other 15.67% stake in the business. As expected on acquisition, Brighter Foods has enhanced earnings for the Group in the current year. For the year ending 31st March 2018, it contributed £16.1million revenue and £3.4million net profit to the Real Good Food Group. As the acquisition was made within the first few days of the financial year, the result is not materially different from what it would have been, if Brighter Foods had been part of the Group for the full year. The Non-controlling interest is measured using a percent of net assets basis.

Details of the assets and liabilities acquired, purchase consideration and goodwill are as follows:

	Book Value £000's	Adjustment £000's	Fair Value £000's
Property, plant & equipment	1,899	-	1,899
Intangible assets	28	4,100	4,128
Investment in Boka Foods	82	-	82
Inventories	1,048	-	1,048
Trade and other receivables	1,033	-	1,033
Cash	5,557	-	5,557
Trade and other payables	(2,988)	(36)	(3,024)
VAT liability	(1,034)	-	(1,034)
Income tax	(235)	(109)	(344)
Deferred tax	(170)	(702)	(872)
Government Grant	(377)	-	(377)
<b>Total net assets</b>	<b>4,843</b>	<b>3,253</b>	<b>8,096</b>

The book value was adjusted for legal fees and March 17 income tax liability which were not present in the original book value. The Group believe that all receivables are fully recoverable.

### 33. Acquisitions (continued)

#### Purchase price

£000's

Paid April 2017	4,520
Paid June 2017	2,818
Deferred consideration paid May 2018	4,520
<b>Total paid or payable</b>	<b>11,858</b>

£000's

RGF consideration	11,858
Non-Controlling Interest on FV of assets - 15.67%	1,269
Less acquired assets	(8,096)
<b>Goodwill upon acquisition</b>	<b>5,031</b>

Costs incurred in acquiring this company amount to £462k, of which £311k has been included in these accounts as part of significant items (note 6). The remaining £151k was taken into the March 2017 accounts.

The Group has also entered into a separate shareholder agreement regarding the management stake whereby the senior management of Brighter Foods can elect to sell 50% of the management stake to the Group after March 2020 and 50% after March 2021. The consideration for the entire management stake will be based upon an agreed valuation formula, linked to profit, cash and capital expenditure of Brighter Foods in the years ending 31 March 2020 and 31 March 2021 respectively, and is capped at £8 million in aggregate. The net present value of the estimated amount payable (£4.8 million), in the event of the exercise of the non-controlling interest put option, has been recognised within long-term liabilities and equity. Additionally the Group can elect to acquire the management stake after March 2021 based upon the same valuation formula.

We do not consider the NCI option gives rise to a present ownership interest.

### 34. Post-year end activities

- On 23 April 2018, a sale of assets was completed for Garrett Ingredients Limited, for a consideration of £1.8 million payable in cash, on a debt free/cash free basis. In the Group's financial year ended 31 March 2017, Garretts contributed £21.3m of revenues and an operating loss of £0.9m. It had net assets of £1.9m.
- On 6 September 2018 the sale of Haydens Bakery Limited to Bakkavor Group plc was completed for a consideration of £12m, payable by means of a cash payment of £9.6m and the assumption by the buyer of £2.4m of third-party debt. The cash funds received were used to reduce the Group's indebtedness, first settling the lending secured against Haydens' assets (£2.3m), then repaying in full the outstanding term loan with the Group's bankers (£1.3m). In the Group's financial year ended 31 March 2017, Haydens (excluding the Chantilly Patisserie business which is not a part of this transaction) contributed £31.3m of revenue, and broke even at profit before tax, closing that year with net liabilities of £0.8m.
- Further borrowings of up to £8.7 million in the form of Convertible Loan Notes were secured in May 2018 (see note 23).
- Open offer was executed for £1.0 million at a share price of 5 pence per share. (see note 23).
- The bank term loan was fully repaid in September 2018. (See note 23).
- Chantilly Patisserie (formerly part of Haydens Bakery Ltd) was incorporated as a new separate legal entity on 31 July 2018 with the name RGF Patisserie Ltd. Real Good Food plc has one Ordinary £1 share in RGF Patisserie.
- Name changes post year-end: Garretts Ingredients Limited was changed to Real Good Food Ingredients Limited. Hayden's Bakeries Limited (dormant) was changed to RGF Devizes Limited.
- Following the closure of the London office, the registered office of Real Good Food plc was changed to 61 Stephenson Way, Wavertree, Liverpool L13 1HN on 12 July 2018. This change was also reflected in the following companies:
  - Eurofoods plc (dormant)
  - RGF Devizes Limited (dormant) (formerly Hayden's Bakeries Limited)
  - Haydens Bakery Limited
  - J F Renshaw Limited
  - N Brown Foods Limited (holding company)
  - R & W Scott Limited
  - Rainbow Dust Colours Limited
  - Real Good Food Ingredients Limited (formerly Garrett Ingredients Limited)
  - RGFC Dust Limited (holding company)
  - Whitworths Sugars Limited (dormant)
  - RGF Patisserie Limited (formerly Chantilly Patisserie, part of Haydens Bakery Limited)

# Shareholder Notes

# Advisors and Company Information

## Directors

P G Ridgwell  
C O Thomas  
H CL Cawley  
H Rai  
J M d'Unienville  
J A Mackenzie  
S Dawson  
M J Holt

## Company Secretary

H Rai

## Registered Office

61 Stephenson Way  
Wavertee  
Liverpool  
L13 1HN

## Registered Number

4666282

## Auditor

BDO LLP  
3 Hardman Street  
Spinningfields  
Manchester  
M3 3AT

## Solicitors

Walker Morris LLP  
Kings Court  
12 King Street  
Leeds  
LS1 2HL

## Nominated Advisor and Broker

finnCap Ltd  
60 New Broad Street  
London  
EC2M 1JJ

## Bankers

Lloyds Bank plc  
5 St Paul's Square  
Old Hall Street  
Liverpool  
L3 9SJ

# Real Good Food plc

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