

Real Good Food plc

Cake Decoration



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Annual Report and Accounts
For the year ended 31 March 2022

Stock code: RGD



Cake Decoration

The Group's current objective:

To deliver a return on investment for all our stakeholders.

The Group's current strategy:

To improve our profitability by focusing on and investing in our areas of competitive advantage, whilst partnering with our customers to enhance the consumer experience.



www.realgoodfoodplc.com

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Additional information online

Overview

Financial highlights

- Revenue from continuing businesses increased by 8.3% to £40.4 million (2021: £37.3 million).
- Adjusted underlying EBITDA* from continuing activities for the Group was £0.7 million (2021: £0.2 million), despite the impact of covid on the continuing business.
- Brighter Foods sold to The Hut Group (THG) in May 2021 generating £36.4 million cash for the Group.
- Net debt significantly reduced to £25.5 million (2021: £48.8 million).

Operational highlights

- Cake Decoration launched 69 new products in the year with in-year revenues of c. £1.8 million.
- Initiated a rebranding, range rationalisation and recipe improvement programme.
- Unprecedented increases in the cost of raw materials and energy in recent months continue unabated and pose significant challenges.
- In response, the Group has hunkered down, controlled costs and protected revenues where possible.

Current trading

- Post year end programme to reduce costs saving £1.4 million per year from the end of Q3.
- FY23 expected to be a very challenging and loss-making year but the business is being strengthened and is ready to benefit from a more favourable trading environment.
- The Group has the support of its Loan Holders and major shareholders to navigate this difficult time.
- The Board remains open to divesting the continuing businesses for the right value at the right time.

* see note 5 underlying adjusted EBITDA



Financial information presented relates to continuing operations.

The Group in Summary

Following the sale of Brighter Foods in May 2021, Real Good Food now has one division, Cake Decoration, comprising two businesses.

The businesses

Cake Decoration comprising Renshaw and Rainbow Dust, has its own infrastructure and management teams and generally has the resources to operate as a stand-alone unit.

Discontinued Operation

Food Ingredients is classed as a discontinued operation in the accounts for FY22 and FY21 owing to the sale on 11 May 2021 of Brighter Foods Limited.

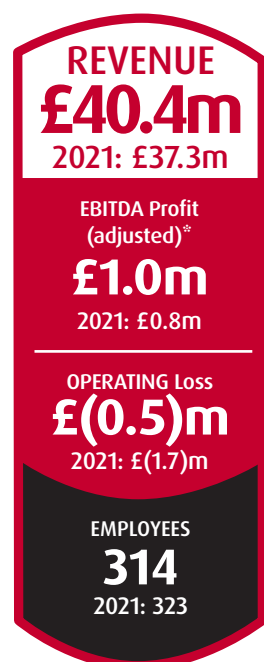
Head Office

Central functions comprise Finance and the plc Board.

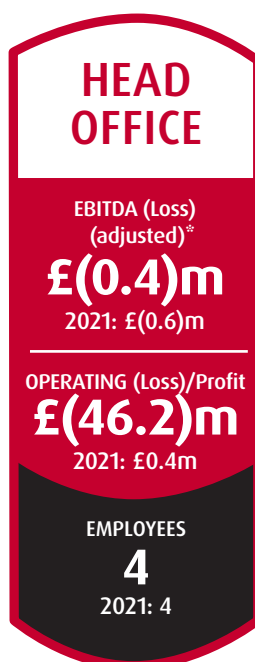
Real Good Food



Cake Decoration



Read more on page 41



*See note 5 for reconciliation



Cake Decoration

Renshaw manufactures sugarpaste, marzipan, soft icings, mallowes, and caramels and sells across a broad range of sales channels: mainstream and specialist retail, wholesale, and food manufacturing as well as exports, primarily to America. **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, 286 employees

Rainbow Dust Colours: Preston, 26 employees

Renshaw Europe: Europe, 2 employees



Food Ingredients (Discontinued operations)

Brighter Foods 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.

Brighter Foods was sold on the 11 May 2021.

Brighter Foods: Tywyn, Wales, 216 employees



Chairman's Statement and Business Review

Overview

With the easing of covid restrictions and post-Brexit uncertainty, the Group started the year well. For the first six months to 30 September 2021, revenue and EBITDA were well ahead of last year. Underlying adjusted EBITDA was £0.7 million compared to a (covid-impacted) loss of £0.8 million in the prior year and an EBITDA profit of £0.2 million for the first half of FY20 (our pre-covid benchmark).

Further progress was expected in our seasonally busier second half of the year, but revenue was much lower than had been anticipated (particularly during our peak Q3 period) due to severe shortages and erratic deliveries of certain key ingredients and services, compounded by high absence rates because of the Omicron variant of covid, which affected our ability to fulfil customer orders. Significant input cost increases during Q4 also impacted profitability due to the inevitable lag effect on cost-to-price pass through to customers. These are sector-wide issues but their effect on us was more pronounced due to our seasonality. Underlying adjusted EBITDA was marginally positive for the six months to 31 March 2022, compared to a £1.1 million profit in the prior year and £1.9 million loss in FY20 (our pre-covid benchmark). International sales, which had been expected to show double digit growth, were 35% lower in the second half of the year and 14% lower for the full year; due to a combination of supply chain shortfalls and the loss of some USA business to local supply.

For the year as a whole the Group improved on its FY21 performance but not FY20, with a £0.7 million underlying adjusted EBITDA on continuing activities. Whilst disappointing and frustrating, the results mask improvements that did add value in the year and will add future value once prevailing market conditions normalise. New product revenues from the launch of 69 new products, accounted for 4.5% (£1.8 million) of sales, this includes the introduction of bakers' caramel for the retail market and other luxury products, which make stylish and quality cake decorating at home easier and more accessible. Work also started on reformulating product recipes to reduce the cost and complexity of product manufacture and this rather than new product launches will be a key focus area for the new financial year.

Brighter Foods

In May 2021, we sold our majority stake in Brighter Foods Limited to The Hut Group for £35.6 million which valued the business at £43.0 million. The timing of the sale coincided with the end of the lock-in period of Brighter's Chief Executive and Founder. At £43.0 million, the sale represented 8.6 times annualised FY20 EBITDA and 11.7 times FY21 EBITDA. The sale enabled us to effectively halve the level of shareholder loans (from £45.6 million to £22.0 million) and to eliminate the pension scheme deficit on an "on-going basis" (by the injection of £8.5 million into the Scheme's assets).

Renshaw Rebranding

In 2021, Renshaw conducted research on the Cake Decorations Market¹. Qualitative insights were gathered from a consumer consulting board of 40 bakers and these were then tested with a group of 1000 UK bakers of various skill levels from beginners to professionals¹. A study into the beliefs and behaviours of lapsed and declining consumers of RTR (ready to roll) icing² was also undertaken; last year, 1.6 million new shoppers entered the category but 1.5million exited³, so addressing their key concerns, the greatest being a lack of confidence, could make a transformational difference to the category.

The results have led to a more inclusive brand proposition. The new improved recipe will continue to provide the functionality that regular users love, whilst also making it easier to knead, roll and correct slight imperfections which anyone can make, to ensure a positive experience even for the first-time user. The vanilla flavour has been increased to enhance the eating experience whilst for consumer packs there's also a fun and approachable new look and name change. From September, consumer packs will encourage cake decorators to "just roll with it" if things take a direction they hadn't originally planned, to celebrate the perfectly imperfect creations that make a handmade product so special. In response to consumer feedback the product will be renamed Fondant Icing (after all it's not strictly "ready to roll" as a quick knead wakes up the gum system and makes the product easier to use).



There has also been a range rationalisation, as even professionals were confused at times with which product to use. Each product in the more focused portfolio has a clear description front of pack to help guide the consumer, and on the back, there are simple step by step instructions and top tips plus a QR code with content to educate and inspire.

The objective of the rebrand, supported by ongoing communications throughout the year will be to stem, (and potentially reverse over time) the decline we have seen in fondant icing, retaining more of the new and existing shoppers and encourage greater frequency of purchase.

Wavertree Property

Shortly after the year end, we sold our Wavertree property to Tutum Property Limited. The property was purchased in 2015 and housed the Renshaw Academy until August 2019. Since then, it had been used as the New Product Development Centre and by Renshaw's marketing team. These were relocated onto Renshaw's main manufacturing site at Crown Street, Liverpool bringing the Renshaw business together on one site. The sale made a small loss but generated net cash proceeds of £0.9 million of which, £0.3 million has been spent on creating an Innovation Centre adjacent to the factory at Crown Street.

Dividend

Consistent with previous years, the Board is not recommending the payment of a dividend for the year. The Board's focus is on reducing the level of debt and investing in Renshaw and Rainbow Dust Colours to deliver the best possible returns for shareholders.

Corporate Governance

The Group is governed through the Board and its Audit Committee and Remuneration Committee. The Board is very conscious of its related party connections and dealings. As appropriate, myself, Gail Lumsden (Senior Independent Non-Executive Director) and Maribeth Keeling (Chief Financial Officer) meet independently of the Board to discuss matters concerning Loan Note Holders and major Shareholders.

Strategy

Following the sale of Brighter Foods, the Group now has two trading units focused on the design and manufacture of products for decorating cakes, biscuits and desserts; JF Renshaw and Rainbow Dust Colours. The Group sells branded and private label products across multiple channels.

Within the UK, the main markets are retail products for home bakers, and ingredients for manufacturers of cakes, biscuits, and desserts, along with bakery shops and foodservice outlets serviced via a wholesaler network.

Internationally, CDD, (Cake Decoration Division) operate in retail, and the specialist home bakery market. Here customers are now spending less than they did during covid lock-downs. Although new customers to the category are still baking, they are doing so less often.

In UK retail, CDD has moved with the consumer who is becoming increasingly price conscious. Therefore CDD has focused on delivery of appropriate products to not just the major multiples but also specialist retailers and bargain stores. Although the Home Baking market has declined since the growth seen during lockdowns, at £1.5 billion RSP³ (retail sales prices) it remains ahead of pre-covid levels. The prediction for the year ahead is that sales across retail will see a further decline as recessionary spending habits kick in, whilst many will continue to bake as a way of relaxing, for others it may be more economical to switch to a bought in product.

Meanwhile, the UK sales of ready-made bakery goods have grown by 1.3%/£185 million over the last year to £14.6 billion RSP CDD has enhanced its relationship with customers through innovation and cross selling Renshaw and Rainbow Dust products into this channel.

Predictions for the year ahead are more difficult; on the plus side we have seen in previous recessionary environments a strong demand for affordable indulgences, and as mentioned above a potential trade off with home baking. But with unprecedented cost increases across fuel, energy and food, disposable income will be reduced which could lead to a drop in consumption.

In summary, the aim is to maximise value for shareholders by leveraging productive capacity by growing revenue (through product innovation and new customers) and improving operational performance. The Group is open to divesting parts of the remaining and continuing businesses for the right value at the right time. The Group has a valued heritage, and the strategy is to leverage this with new products and class leading service.

Outlook

The unprecedented increases in the cost of raw materials and energy in recent months continue unabated and pose significant challenges to the whole sector. Since 1 January 2022, the cost of sugar has doubled and glycerine and butter have increased by 87% and 82% respectively. It is anticipated that for the current financial year (to 31 March 2023), the increased cost of raw materials and other costs of production will exceed £5 million given current cost levels. These increases are being passed through to customers but, in an environment of spiralling cost inflation, the lag effect is more prominent. Price increases have been secured but they have become incessant. They are also likely to depress demand with household incomes being under pressure from rising energy pricing and other costs. Volumes for the first five months of the new financial year are 29% down on the same period of last year and 16% lower than our pre-covid benchmark (FY20). Assuming the current hyper-cost inflation and its impact on demand continues, the Group will be loss-making at EBITDA level.

The Group is determined to hunker down, control costs, maximise savings opportunities and protect revenues. Wage inflation has been held at 3% and a voluntary redundancy programme was agreed in May 22 which will reduce 51 jobs during Q3 saving £1.4 million per year. Given the pressure on the business, a more radical reform of the Group has just been signed off by the Board and Loan Note Holders to significantly reduce overhead costs, re-set pricing and achieve further manufacturing efficiencies in order to return the business to profitable growth. Successful implementation of the recovery plan is expected to return between £2 million and £4 million in EBITDA under current market conditions. Negotiations with customers have already begun to address the widening gap caused by cost inflation and market distortions that have arisen in recent years.

The Board is confident that the right actions are being taken and has secured the support of Loan Note Holders, including the pledge of additional funding of £1.0 million, Loan documentation is under discussion). The Group is also, with the support from advisors, in discussions to secure an additional £1.5 million of new funding as part of a refinancing of the asset backed facility with a new funder, currently provided by Leumi ABL.

Mike Holt

Executive Chairman

30 September 2022

1. Axis Consulting Quantitative Research of 1000 home bakers
2. Kantar. How do we revolutionise the icing category? 7 Sept 2021
3. Kantar, Market Data Update May 2022.

Finance Review

Revenue

Group revenue of the continuing businesses for the 12 months ended 31 March 2022 was £40.4 million (2021: £37.3 million), an increase of 8.3% on revenue to 31 March 2021. With the relaxation of covid restrictions, sales in the Wholesale and Manufacturing sectors began to return to pre covid levels. The first half of the year saw strong sales of £20.0 million up 29.9% versus H1 in FY21, however sales in Q3 (October to December), and January were much lower than expected due to severe shortages and erratic deliveries of certain raw materials, compounded by high absence rates in the factory due to the Omicron variant, which affected our ability to fulfil customer orders. Sales in the second half were therefore flat year on year.

Profit measure on operations

Gross profit on the continuing businesses for the overall Group was £16.1 million (2021: £15.2 million). At 39.9%, the gross profit margin was below the prior year by 0.8%, owing to significant increases in key material costs and higher distribution costs for overseas deliveries. The lag effect on passing through cost increases onto customers is on average two to three months, but the impact is more pronounced during our seasonally busier second half.

The operating loss in the year of £17.1 million is reported after depreciation and amortisation charges of £1.4 million, impairment of £16.1 million and significant items of £0.3 million. The significant costs arise from further restructuring in the Cake Decoration business and the closure of the Wavertree site.

The adjusted EBITDA profit of the underlying continuing business is £0.7 million.

The items adjusted for are:

Impairment charge:	£16.1m
Significant Items:	£0.3m

The impairment charge relates to purchased goodwill and aligns the £41.3 million carrying value to what the Board considers recoverable, based on current trading forecasts and only the cost saving measures underway at the balance sheet date. Had the full benefits of the recently launched radical reform programme been taken into account the impairment would have only been £0.6 million. After finance costs of £1.9 million (FY21: £4.7 million), a significant reduction on FY21 owing to the repayment of some investor loans in FY22, the loss before tax for the year was £19.0 million (2021: loss of £6.1 million) for continuing businesses. This equates to a loss per share of 21.46 pence on continuing operations (loss of 6.50 pence in 2021), (see note 15).

Cash flow and net debt

Conserving cash is a key objective for the Group. Following the sale of Brighter Foods in May 2021 the Group netted cash proceeds of £35.4 million. The proceeds were utilised as follows:

The Group made a payment of £8.5 million to the Group's pension scheme (the Napier Brown Retirement Plan) (the "Plan"), broadly equivalent to the Plan's low dependency technical provisions basis.

As such, it is expected that the Group will not have to pay further deficit contributions, until a new schedule of contributions is agreed based on the valuation as at 31 March 2022 for the Plan; such agreement would take into account this cash injection, which may result in payments of up to £1.5 million (in aggregate) being paid between 1 January 2023 and 30 June 2025 to close the gap towards a buy-out basis.

The Group paid £23.1 million to the Loan Note Holders, reducing the amount repayable from £45.6 million to £22.5 million, with a further £0.5 million waiver from the loan note holders reducing the debt to £22.0 million in respect of the loan notes.

Approximately £3.0 million of net proceeds was retained to provide working capital to support the financing needs of Renshaw and Rainbow Dust Colours.

The net debt at the end of FY22 stood at £25.5 million versus £48.8 million in FY21. This predominantly comprises shareholder loans of which £16.3 million is in the form of convertible loan notes.

Net debt is a key performance indicator for the Group and is explained in note 13.

12 months to March	2022 £'000s	2021 £'000s
Revenue	40,431	37,292
Gross profit	16,130	15,164
Delivered margin	12,170	11,549
Delivered margin %	30.0%	31.0%
Underlying EBITDA (adjusted)*	659	227
Operating (loss) before impairment and significant items	(676)	(1,464)
Operating loss after impairment and significant items	(17,089)	(1,261)
Operating loss %	(42.3%)	(3.4%)
Loss before tax	(18,978)	(6,108)

All figures refer to continuing businesses.

*See note 5 for reconciliation

Going Concern and Post Balance Sheet Events

The financial statements are prepared on a going concern basis, which the Directors believe to be appropriate for the following reasons.

The forecasts are prepared on a Group basis and therefore include underlying forecasts and assumptions for the subsidiaries and the Parent Company. For this reason, the Group is referred to in the following paragraphs when discussing forecasting and events as all are interdependent on one another.

The Group incurred a loss on continuing operations before tax and impairment of £2.9m in the year to 31 March 2022 (2021: £6.1m loss) and at 31 March 2022 had net current assets of £5.1m (2021: £15.0m) and net assets of £5.1m (2021: £3.3m). The Group manages its day-to-day working capital requirement using various facilities with Leumi ABL. At the year end the available Group finance facilities, provided by Leumi ABL, totalled £6.6m, of which £5.0m was utilised. The Group shareholder loan notes and convertible loan notes, totalled £23.6m and are classified as creditors due after one year, and are repayable on 19 May 2023.

The Directors have prepared financial forecasts for the Group, comprising income statements, balance sheets and cash flows through to March 2024 which have been approved by the Board. In assessing the appropriateness of the Group's accounts being prepared on a going concern basis, the Directors have considered factors likely to affect its planned future performance and reasonably possible downside sensitivity scenarios.

As noted in the Strategic Report and Business Review on page 5, the macroeconomic headwinds are very challenging and are expected to continue for the immediate future given the wider economic outlook. A radical reform of the business has commenced, which requires the support of new funding, in order to return the Group to profitability and to position it for sustainable growth once economic conditions improve. The new funding requirement is £2.5m of which £1.0m has been pledged, but not yet formally committed, by existing Loan Note Holders.

Due to the current (and severe) inflationary cost pressures impacting consumer demand, and the ongoing difficulty in sourcing key ingredients and services, sales volumes are forecast to be 20% lower than FY22. New customers and product launches during FY22 and FY23, the unwinding of inventory on hand, actions from the restructuring plan including re-setting sales pricing particularly within UK Retail, together with overhead savings and manufacturing operational efficiencies have been factored into FY23 and FY24 projections.

The cash flow forecasts reflect the introduction of a new finance facility of £7.5 million, of which £1.5 million would be incremental to the Group's current facilities, and an additional £1.0 million of shareholder loans. Discussions are underway with asset-backed lenders to provide the new asset-backed facility of circa £7.5 million, comprising a term loan of £2.3 million and circa £5.0 million invoice discount facility, underpinned by asset security and the recovery plan to replace the current ABL Leumi facility. The additional £1.0 million of shareholder loans has been pledged and discussions are ongoing as to the pricing of this and the ranking of shareholder loans between Loan Note Holders. No new funding agreements have been formally signed as of the date of signing the financial statements as the two funding arrangements are mutually conditional.

The Board has reviewed the sensitivity of the sales and the effects of these have been modelled.

The Directors considered the potential impact of a reduction in the volume of revenue by 5% throughout the year. Without any mitigating action, Group cash would reduce to £nil in March 2023. However, were there to be this level of lower sales, mitigating action would be taken quickly with an immediate cessation of discretionary spend. The short-term plan would be a reduction in the number of factory and overhead staff, and general overheads. Although there could be a 3-month time lag on implementing any

people changes, these changes would create liquidity headroom with the low point of cash availability then being June 2023 when cash would reduce to £0.2 million as a result of the stock build for Quarter 3 (October to December).

The current banking covenants that are in place for FY23 remain the same as FY22.

The covenants are a rolling 3-month EBITDA being within 80% of the forecast and greater than £5 million tangible net worth. The covenants are not breached on the stressed scenarios including mitigating action, referred to above. However, a new finance provider may require different covenants to the above.

The principal shareholders of the Group continue to show considerable support.

Based on the Directors review of the above, there are three key areas which indicate the existence of a material uncertainty which may cast significant doubt on the Group and Parent Company's ability to continue as a going concern, which are as follows:

- The cash flow forecasts to be achieved by the Group over the next 12 months require several significant actions to be delivered successfully in the short-term, including the Group negotiating customer price uplifts as part of an overall price reset (in addition to the ability to pass on increased inflationary cost pressures to customers), making overhead cost reductions and making improvements in working capital management (specifically inventory reductions). The achievability of the cash flow forecasts based on the restructuring of the business has some execution risk, as well as the impact of wider economic headwinds, particularly in relation to duration and the effect on consumer demand for our products. However, with support from customers and employees, the Directors consider these actions to be achievable.
- The cash flow forecasts are based upon the approval of new loans totalling £2.5 million being obtained including an additional £1.0m of shareholder loans. In order to secure the incremental £1.5 million asset-backed loan, requires a re-financing of the facilities currently provided by Leumi ABL, to an alternative provider. Discussions have already commenced with asset-backed lenders but are yet to be agreed.
- The cash flow forecasts are based upon the extension of the maturity of the shareholder loan notes and convertible loan notes from May 2023 to at least May 2024, which are pledged, however the documentation is not yet formally committed.

If these targeted actions and forecasts are not able to be delivered, or the new bank and shareholder loans identified above are not secured, the Group may not be able to operate within its existing cash and financing facilities and would therefore need alternative and/or additional funding in excess of those noted above.

In light of the above, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, the factors described above indicate the existence of a material uncertainty which may cast significant doubt on the Group and Parent Company's ability to continue as a going concern and to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

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 scheme valuation reported a net surplus at 27 March 2022 of £1.5 million (2021: deficit £7.5 million). The Plan assets increased by £6.9 million to £21.4 million (2021: £14.5 million) and the Plan liabilities are £19.9 million compared to £21.9 million at 31 March 2021. Following the sale of Brighter Foods on the 11 May 2021, a payment of £8.5 million was made to the Napier Brown Retirement Plan. This included a pre-payment of £1.8 million, through to 1 January 2023, in relation to the deficit recovery schedule agreed as part of the 31 March 2018 valuation. The Trustee and Company have agreed the 31 March 2021 valuation, and are finalising the deficit recovery and security provisions within the pension funding agreement.

Dividend

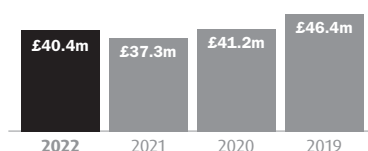
The Directors, considering the Group's performance and cash resources, do not recommend the payment of a final dividend for the year ended 31 March 2022 (2021: nil).

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 has reviewed these key performance indicators and considers they remain appropriate.

REVENUE GROWTH

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

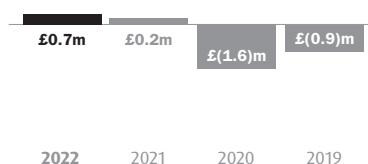


COMMENT

Revenue in the year increased by 8.3% (FY21 decreased by 9.5%) This was primarily driven by the covid restrictions on business being lifted during the year. The sustainable quality of the revenue is regarded as important.

EBITDA (ADJUSTED) ON CONTINUING ACTIVITIES

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

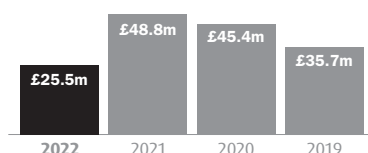


The EBITDA (adjusted) profit is £0.7 million (2021: £0.2 million).

EBITDA measurement is to evidence improvement in line with the increase in revenue and/or reduced costs. During the second half of FY22, there was unprecedented increases in costs in a short period of time owing to external factors, including the Ukraine/Russia conflict. The blockage in the Suez Canal causing disruption to delivery of raw materials and the shortage of labour worldwide. There has been a lag between increased costs and the recovery of the costs from customers.

NET DEBT

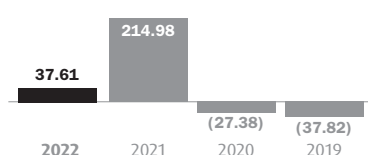
Net debt is the total Group borrowings less cash at bank.



Net debt in the year has decreased to £25.5 million (FY21 £48.8 million), following the repayment of £23.1 million from the sale of the Brighter Foods business; net debt is predominantly shareholder loans.

DEBT COVER

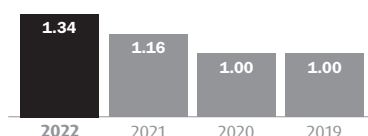
Debt cover is calculated by dividing total net debt by continuing EBITDA (adjusted).



As a result of increased EBITDA (adjusted) profits in the year net debt cover stood at 37.61 at the end of FY22. The Group measures the changes on debt cover year on year.

ACCIDENT FREQUENCY RATE

The accident frequency rate is the number of RIDDOR accidents per 100,000 hours worked.



A higher number denotes a higher risk. The number of RIDDOR accidents in FY22 is 3, lower than FY21. The RIDDOR accidents in FY21 and FY22 are all recorded against Cake Decorations, therefore a real year on year reduction. The accident frequency rate is higher owing to the reduction in hours worked as Brighter Foods are no longer included following the sale. The target for RIDDOR accidents is nil. This has not been achieved; however, the Group continues to invest in training to further reduce accidents and will continue to support the businesses to achieve the target.

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. Embracing its corporate social responsibility to its stakeholders and within its communities is therefore an important part of building long term sustainable businesses in the Group.

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

The Responsible Business Framework in place has three key objectives:

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

During the year it continued to be difficult to engage with the community owing to ongoing covid restrictions. The majority of employees returned to the office in the first half of the year, however the number of customers and visitors to the site remained below pre covid levels. Management engaged with the workforce and took action to ensure all employees felt safe, with screens remaining in place and additional hand sanitisers on site.

CDD donated £500 to the Clatterbridge Cancer Charity.

Health and safety

Commentary 2021/22

The Board reviews the Health & Safety reports of both businesses at the monthly Board meetings. The Board, along with local management, fully support the H&S initiatives undertaken in the business in the last year.

Employees are encouraged to report all accidents and near misses to ensure that preventative training and actions can be undertaken.

As covid rules were relaxed during the year, the business consulted with employees on the relaxing of restrictions in line with Government legislation. The covid group that was formed during the early days of the pandemic has been disbanded and any updates on covid are included in the H&S meetings.

- Renshaw has a full-time Health & Safety Manager. There has been a reduction in the number of accidents and incidents during the year reflecting the ongoing training and improved processes taking place in the business. This was also noted by the company's insurers.

2022/23 Priorities

- We continue to maintain and improve our legal compliance and health and safety performance. The audit process implemented in FY22 will continue to be enhanced in FY23.
- Targeting a further year on year reduction in the number of incidents.
- Continue to work and support the local communities.

Risk Management

The risks facing the Group 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, and continues to implement improvements in the Group's governance, where required. The risk register is reviewed at least half yearly at the Group Board. The principal risks of the Group as a whole are set out below.

Demand for products and market share

Many factors affect the level of consumer spending in the food industry and consumer preferences and spending habits change as a result of 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 Group may experience increased competition from existing or new companies, especially at a time when the major retailers may experience more 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 customer 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 and Brexit

The Group has no control over fluctuations in the longer-term price and availability of ingredients. During FY22 there have been unprecedented cost increases (sugar, palm oil, energy, packaging and transport), and also challenges with availability. Following covid labour shortages have been experienced by many suppliers both abroad and in the UK, and the transportation of products into America has been challenging, with delays at ports. 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. Following the disposal of Brighter Foods, the Group agreed a one-off payment with the pension trustee of £8.5 million, effectively settling the current deficit and having c£1.5 million on account. The pension fund is undergoing the 3-year valuation and a new payment plan will be agreed in due course taking account of the £1.5 million. 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 Board regularly monitors the Group's cash position. 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 and legal

The Board monitors and considers corporate governance changes and makes the appropriate changes in the business.

This report was approved by the Board on 30 September 2022 and is signed on its behalf by:

Mike Holt
Executive Chairman

Board of Directors

Mike Holt Executive Chairman

Appointed Non-Executive Chairman on 30 May 2019, having been Non-Executive Director since joining the Board on 7 August 2018, and appointed Executive Chairman on 21 October 2020.

Mike has significant public company board, general management, financial management and M&A 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. Before joining Vp, Mike held senior financial positions within Rolls-Royce Group in the UK, USA, and Hong Kong. Mike qualified as a Chartered Accountant with Arthur Andersen and is a fellow of The Institute of Chartered Accountants in England and Wales. 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. In addition, Mike is a Trustee and Director of Hollybank Trust Limited and Derby Diocesan Academy Trust Limited.

Judith A MacKenzie Non-Executive Director

Judith joined Downing LLP in October 2009 and is Partner and Head of Downing Fund Managers. 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.

Maribeth Keeling Chief Financial Officer and Company Secretary

Maribeth has considerable public company experience, having specialised particularly in the turnaround and performance improvement of various companies in a variety of sectors, and has worked predominantly in listed entities (main market and AIM), but also in private companies and the not-for-profit sector. Maribeth retains her role as Finance Director of the Cake Decoration division.

Maribeth is leaving the business on the 30 September 2022.

Anthony Ridgwell Non-Executive Director

Anthony Ridgwell has been working within the Napier Brown group of companies since leaving university. He is also a director of Napier Brown and of Napier Brown Holdings Limited where he deals with and manages their investments.

Anthony resigned from the Board on the 22 August 2022.

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) Ltd and Omnicane Thermal Energy Operations (St. Aubin) Ltd. He has served as president of the Mauritius Sugar Syndicate and as president of the Mauritius Sugar Producers' Association.

Gail Lumsden Non-Executive Director

Gail has significant experience in driving profitable growth and leading major change in both large, global corporates and SMEs. Having held senior executive roles in strategy, finance, and commercial at Diageo Plc and SABMiller Plc for over 20 years. Gail now runs her own advisory business, is Non-Executive Chair of Vocation Group Limited, the BGF backed craft brewing group, and is a member of the Industrial Development Advisory Board, a statutory body sponsored by BEIS.

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 March 2022. Owing to covid in the past couple of years, there have been restrictions on meetings, including the AGM held in January 2022. The directors look forward to holding an in-person AGM in October 2022.

Corporate governance

The Board recognises and understands the importance of good corporate governance. We have elected to adopt the Quoted Companies Alliance Corporate Governance Code (the 'QCA Code') which we believe has been constructed in a simple, practical and effective style and that meaningful compliance with its 10 main principles should provide shareholders with confidence in how the Group operates.

Section 172 of the Companies Act 2016 requires Directors to take into consideration the interests of stakeholders and other matters in their decision making. The Directors continue to have regard to the

interests of the Company's employees and other stakeholders, the impact of our business in the communities we operate, the environment and the Company's reputation for good business conduct, when making decisions. In this context, acting in good faith and fairly, the Directors consider what is most likely to promote the success of the Company for its stakeholders in the long term. We explain this in the report and below:

Relationships with key stakeholders such as our customers, colleagues, suppliers, investors are explained in more detail on pages 12 to 14.

The Directors are fully aware of their responsibilities to promote the success of

the company in accordance with section 172 of the Companies Act 2006 and that sufficient consideration is given to issues relating to the matters set out in s172 (1) (a)-(f).

The Board regularly reviews the Company's principal stakeholders and how it engages with them. This is achieved through information provided by management and by direct engagement with stakeholders themselves.

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 21.

Below shows each principle, and how the Group complies:

Principle	How Real Good Food plc complies
1. Establish a strategy and business model which creates long-term value for shareholders.	<p>The objective and strategy of the Group is to deliver a return on investment for all our shareholders, providing a stable financial platform through improving the profitability of the Group as a whole and its constituent businesses.</p> <p>The Group supports and guides the Cake Decoration business in its daily operation through clear objectives and articulated strategies, such strategies being updated as necessary on a regular basis.</p>
2. Seek to understand and meet shareholder needs and expectations.	<p>The Board has representation of a large proportion of its shareholder base – they can, and do, communicate the thoughts and requirements of the shareholders regularly.</p> <p>Contact details of Executive Directors are made available to other shareholders who wish to make contact. This is actively encouraged.</p> <p>The Board receives share register analysis reports to monitor the shareholder base and identify the types of investors on the register.</p> <p>All shareholders are invited to attend the AGM and Directors make themselves available before and after the meeting for further discussion. Following all covid restrictions being lifted, the AGM in September 2022 will be in person.</p>
3. Take into account wider stakeholder and social responsibilities and their implications for long-term success.	<p>The Group regards its shareholders, employees, customers, suppliers, and advisors as all being important parts of the wider stakeholder group.</p> <p>Management regard our employees as our greatest asset, engaging with them on a regular basis as referred to in the directors' report.</p> <p>Management clearly places particular importance on its day-to-day relationships with customers, with significant effort directed to ensuring these are managed appropriately. The businesses work with many customers and suppliers and have developed a collaborative way of working to ensure the successful and sustainable trading relationships.</p> <p>Shareholders are important to the business and continue to support the businesses and its strategy.</p> <p>The Group records customer service levels – OTIF (on time in full), for example and customer communication including complaints. OTIF has been a challenge during the second half of FY22 owing to delayed deliveries of raw materials and availability of labour. This is a key focus of the management team in FY23 to ensure a return to expected performance levels. The Group had a reduction in complaints year on year and continues to strive to reduce this further. There is a feedback system in place for service levels and issues raised can be addressed.</p>

Principle	How Real Good Food plc complies
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation.	A risk register is compiled by the Audit Committee, detailing the risks identified within the businesses, and the Group as a whole. It is regularly updated and is presented at Board meetings for discussion each time a change has been made, or half yearly, whichever is the shorter period.
5. Maintain the Board as a well-functioning, balanced team led by the Chair.	<p>The Board, chaired by Mike Holt, currently comprises two Executive and four Non-Executive Directors. As executive chairman, Mike is primarily responsible for the Group's approach to corporate governance and the application of the principles of the QCA Code. Gail Lumsden is the Group's Independent Director.</p> <p>Each Board member commits sufficient time to fulfil her or his duties and obligations to the Board and the Group. Each Director attends monthly Board meetings and joins ad hoc Board discussions, as necessary.</p> <p>The Board is supported by its Audit Committee and its Remuneration Committee. The plc Board meets at least once a month, with additional meetings held as and when required. The Audit and Remuneration Committees meet at least twice a year. During the year, there were 15 Board meetings held.</p>
6. Ensure that between them the Directors have all the appropriate experience, skills, and capabilities.	<p>The descriptions on page 11 identify each member of the Board and describes her or his relevant experience, skills, and qualities. The Chairman and the Board as a whole believes that the Board has a more than sufficient and suitable mix of experience, skills and competence which covers all the disciplines essential to bring a balanced perspective to enable the Group to deliver its objective.</p> <p>The Board is currently comprised of two Executive Directors and four Non-Executive Directors, one of whom is independent and comprises three men and three women, ranging in age from their mid-40s to early 60s. Updates to members of the Board on regulatory matters are given by Board members themselves where appropriate and/or by Group's professional advisors.</p>
7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.	<p>Against the background of the articulated objective for the Group, the performance of the Board as a whole may be judged, through the eventual attainment of financial measures, including adjusted EBITDA, operating cash flow and net debt.</p> <p>The Board has opted for annual re-election at the AGM. The Board is planning to undertake a formal assessment during FY23. Owing to challenges with covid, there has not been the opportunity to arrange this earlier, following the lifting of the covid restrictions, this will be put in place.</p>
8. Promote a corporate culture that is based on ethical values and behaviours.	The Board recognises that the values it espouses provide the framework which influences all parts of the Group. The Executive Officer takes the lead in developing the corporate culture and looks to encourage all employees to contribute to the enjoyment and success of the business, the formulation of the tactics to deliver the objective and strategy and to the promulgation of the core values. The Human Resources team have long promoted the Group's values which underpin conditions of employment.
9. Maintain governance structures and processes that are fit for purpose and support good decision making by the Board.	<p>The Executive Board members generally have clear overall responsibility for managing the day-to-day operations of the Group and the Board as a whole is responsible for monitoring performance against the Group's goals and objectives.</p> <p>The roles of the Audit Committee, the Remuneration Committee and the Board of Directors are clearly defined within this report.</p>
10. Communicate how the Group is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.	<p>The Group strives to maintain a regular dialogue with stakeholders including shareholders to enable any interested party to make informed decisions about the Group and its performance.</p> <p>The Board believes that greater transparency in its dealings offers a level of comfort to stakeholders and an understanding that their views will be heard and considered appropriately.</p>

Section 172 Statement

Section 172 of the Companies Act 2006 requires Directors to take into consideration the interests of stakeholders and other matters in their decision making. The Directors continue to have regard to the interests of the Company's employees and other stakeholders, the impact of our activities on the community, the environment and the Company's reputation for good business conduct, when making decisions. In this context, acting in good faith and fairly,

the Directors consider what is most likely to promote the success of the Company for its members in the long term. We explain in this annual report, and below, how the Board engages with stakeholders, customers, colleagues, suppliers and investors.

The Directors are fully aware of their responsibilities to promote the success of the Company in accordance with section 172 of the Companies Act 2006 and that sufficient

consideration is given to issues relating to the matters set out in s172(1)(a)–(f).

The Board regularly reviews the Company's principal stakeholders and how it engages with them. This is achieved through information provided by management and by direct engagement with stakeholders themselves. The key Board decisions made from 1 April 2021 to 31 March 2022 are set out below.

Significant Events/decisions	Stakeholders Affected	Considerations
Extension of shareholder loans	Employees Shareholders Minority shareholders	<ul style="list-style-type: none"> Legacy issues/events have caused the Group to be very highly geared which inhibits its ability to refinance investor loans with third party commercial loans. The Board has been able to significantly reduce the shareholder loans following the sale of Brighter Foods. The Loan Note Holders have pledged to extend the loans from 19 May 2023 to 19 May 2024, although the formal documentation is not yet in place.
Cash management	Employees Shareholders Communities HMRC	<ul style="list-style-type: none"> The company following the sale of Brighter Foods retained £3m from the sale for working capital. The unprecedented increases in cost of raw materials and the lag in the price increases being passed through to customers has resulted in a lower than expected cash inflow. The Group following the covid restrictions encouraged workers to return to the office. Under the job retention scheme the business claimed £24k in FY22.
Disposal of Brighter Foods	Shareholders Employees	<ul style="list-style-type: none"> The Board agreed to sell Brighter Foods for £43m, debt free/cash free. The Board reduced the shareholder loans by £23.6m and made a payment to the pension fund of £8.5m.
Board interaction with businesses	Shareholders Employees	<ul style="list-style-type: none"> The Board meetings are held once a month and the MD of the Cake Decoration Division (CD) presents the business and discusses both strategic and operational matters. On occasions other members of the senior management team from the CDD join the Board meeting. This has strengthened the communication between the Board and the business unit and the quality and timeliness of decision making. The Board had planned to visit the operational sites during the year; however, this has been curtailed pro tem owing to covid, with restrictions now lifted, this will resume in FY23.
Investor relations	Shareholders Minority shareholders	<ul style="list-style-type: none"> Increased interaction with our shareholders with direct access to the Board; the Chairman makes himself available to minority shareholders. The quality, frequency and relevance of investor communications is improving.
Cake Decorations Restructure	Employees Shareholders Customers Communities	<ul style="list-style-type: none"> Cake Decorations continues to review the structure as a result of the unprecedented challenges seen in the second half of the FY22 year. Factory operational changes have started and further initiatives to improve efficiency and ways of working are underway. The New Product Development (NPD) team have been focusing on formulations that will ease pressure on scarce raw materials, this is not a short-term fix, but will be beneficial in the long term. Sales and Marketing teams are putting the customer at the forefront of what we do by actively engaging in long term partnerships. FY22 has been challenging to deliver orders on time in full (OTIF) as a result of logistic challenges, labour skill shortages and erratic raw material deliveries which have either been short or late. These challenges have arisen from many factors including the conflict in Ukraine, delays in shipping (Suez Canal blocked) and some form of covid restrictions in many countries.
Board Changes	Minority shareholders Employees Shareholders	<ul style="list-style-type: none"> There have been no changes to the Board during FY22. The non-shareholder directors meet independently of the loan note holders to discuss any issues that would give rise to conflict. The non-independent directors are not party to these meetings or minutes thereof.
Environmental and sustainability	Customers Employees	<ul style="list-style-type: none"> Working with supply chain partners to have more recyclable packaging. There is a project that is being undertaken in FY22. The plastic tax is effective from FY23. Continue working with suppliers to source and use ethical products, such as palm oil. The palm oil used by the business is sustainable palm oil. The work undertaken by the NPD team to review the formulation of products will also focus on changing products that meet the sustainability and ethical requirements of the Group and our customers.

Report of the Directors (continued)

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 accounting standards 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 assume 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 are 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.

Board Meetings

There has been 15 meetings in the year, details of attendance are below.

	Eligible to attend	Meetings attended
Mike Holt	15	15
Maribeth Keeling	15	15
Jacques d'Unienville	15	14
Judith MacKenzie	15	15
Anthony Ridgwell	15	13
Gail Lumsden	15	15

The above table sets out the number of Directors' meetings held during the year and the eligibility and attendance by members of the Board.

Going concern

The financial statements are prepared on a going concern basis, which the Directors believe to be appropriate for the following reasons.

The forecasts are prepared on a Group basis and therefore include underlying forecasts and assumptions for the subsidiaries and the Parent Company. For this reason, the Group is referred to in the following paragraphs when discussing forecasting and events as all are interdependent on one another.

The Group incurred a loss on continuing operations before tax and impairment of £2.9 million in the year to 31 March 2022 (2021: £6.1m loss) and at 31 March 2022 had net current assets of £4.4m (2021: £15.0m) and net assets of £5.1m (2021: £3.3m). The Group manages its day-to-day working capital requirement using various facilities with Leumi ABL. At the year end the available Group finance facilities, provided by Leumi ABL, totalled £6.6m, of which £5.0m was utilised. The Group shareholder loan notes and convertible loan notes, totalled £23.6m and are classified as creditors due after one year, and are repayable on 19 May 2023.

The Directors have prepared financial forecasts for the Group, comprising income statements, balance sheets and cash flows through to March 2024 which have been approved by the Board. In assessing the appropriateness of the Group's accounts being prepared on a going concern basis, the Directors have considered factors likely to affect its planned future performance and reasonably possible downside sensitivity scenarios.

As noted in the Strategic Report and Business Review on page 5, the macroeconomic headwinds are very challenging and are expected to continue for the immediate future given the wider economic outlook. A radical reform of the business has commenced, which requires the support of new funding, in order to return the Group to profitability and to position it for sustainable growth once economic conditions improve. The new funding requirement is £2.5m of which £1.0m has been pledged but not yet formally committed by existing Loan Note Holders.

Due to the current (and severe) inflationary cost pressures impacting consumer demand, and the ongoing difficulty in sourcing key ingredients and services, sales volumes are forecast to be 20% lower than FY22. New customers and product launches during FY22 and FY23, the unwinding of inventory on hand, actions from the restructuring plan including re-setting sales pricing particularly within UK Retail, together with overhead savings and manufacturing operational efficiencies have been factored into FY23 and FY24 projections.

The cash flow forecasts reflect the introduction of a new finance facility of £7.5 million, of which £1.5 million would be incremental to the Group's current facilities, and an additional £1.0 million of shareholder loans. Discussions are underway with asset-backed lenders to provide the new asset-backed facility of circa £7.5 million, comprising a term loan of £2.3 million and circa £5.0 million invoice discount facility, underpinned by asset security and the recovery plan to replace the current ABL Leumi facility. The additional £1.0 million of shareholder loans has been pledged and discussions are ongoing as to the pricing of this and the ranking of shareholder loans between Loan Note Holders. No new funding agreements have been formally signed as of the date of signing the financial statements as the two funding arrangements are mutually conditional.

The Board has reviewed the sensitivity of the sales and the effects of these have been modelled.

Report of the Directors (continued)

The Directors considered the potential impact of a reduction in the volume of revenue by 5% throughout the year. Without any mitigating action, Group cash would reduce to £nil in March 2023. However, were there to be this level of lower sales, mitigating action would be taken quickly with an immediate cessation of discretionary spend. The short-term plan would be a reduction in the number of factory and overhead staff, and general overheads. Although there could be a 3-month time lag on implementing any people changes, these changes would create liquidity headroom with the low point of cash availability then being June 2023 when cash would reduce to £0.2 million as a result of the stock build for Quarter 3 (October to December).

The current banking covenants that are in place for FY23 remain the same as FY22.

The covenants are a rolling 3-month EBITDA being within 80% of the forecast and greater than £5 million tangible net worth. The covenants are not breached on the stressed scenarios including mitigating action, referred to above. However, a new finance provider may require different covenants to the above.

The principal shareholders of the Group continue to show considerable support.

Based on the Directors review of the above, there are three key areas which indicate the existence of a material uncertainty which may cast significant doubt on the Group and Parent Company's ability to continue as a going concern, which are as follows:

- The cash flow forecasts to be achieved by the Group over the next 12 months require several significant actions to be delivered successfully in the short-term, including the Group negotiating customer price uplifts as part of an overall price reset (in addition to the ability to pass on increased inflationary cost pressures to customers), making overhead cost reductions and making improvements in working capital management (specifically inventory reductions). The achievability of the cash flow forecasts based on the restructuring of the business has some execution risk, as well as the impact of wider economic headwinds, particularly in relation to duration and the effect on consumer demand for our products. However, with support from customers and employees, the Directors consider these actions to be achievable.

- The cash flow forecasts are based upon the approval of new loans totalling £2.5 million including an additional £1.0m of shareholder loans. In order to secure the incremental £1.5 million asset-backed loan, requires a refinancing of the existing facilities currently funded by Leumi ABL, with an alternative provider. Discussions have already commenced with asset-backed lenders but are yet to be agreed.
- The cash flow forecasts are based upon the extension of the maturity of the shareholder loan notes and convertible loan notes from May 2023 to at least May 2024, which are pledged, however the documentation is not yet formally committed.

If these targeted actions and forecasts are not able to be delivered, or the new bank and shareholder loans identified above are not secured, the Group may not be able to operate within its existing cash and financing facilities and would therefore need alternative and/or additional funding in excess of those noted above.

In light of the above, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, the factors described above indicate the existence of a material uncertainty which may cast significant doubt on the Group and Parent Company's ability to continue as a going concern and to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

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, manufacturing, wholesale, and export sectors.

Business review and future developments

These topics are covered in detail within the Strategic Review and Divisional Reviews on pages 4 and 5.

Non-current assets

Details of changes in non-current assets are given in notes 12–16 to the financial statements.

Directors

Details of the Directors are given on page 11.

Substantial interests

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

31 March 2022	% Holding in ordinary share capital
NB Ingredients Limited	22.3%
Omnican International Investors Limited	20.8%
Downing LLP	7.9%
Mr J & Mrs S O'Driscoll	10.1%
Philip J Milton & Company PLC	6.4%

Directors' indemnities

The Company has paid £32.8k (2021: £95.0k) in respect of Directors' and Officers' Indemnity Insurance.

Financial instruments

The Group's financial instruments comprised bank term loans and a revolving credit facility, 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 26 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 encouraged by a variety of means including team working, team briefings, consultative committees and working parties. The business has introduced an employee forum during FY22, whereby all employees are given the opportunity to be part of the forum and contribute.

The employees are integral to achieving the business objectives of the Group. The Group is committed to creating an environment where all individuals feel respected and supported. RGF plc has established policies for recruitment, training and development and is committed to achieving excellence in health and safety welfare.

RGF plc is an equal opportunities employer and will continue to ensure that it offers opportunities without discrimination. Full consideration is given to applications for employment from disabled persons, having regard for their particular aptitudes and abilities and in accordance with relevant legislation. The Group continues the employment wherever possible of any person who becomes disabled during their employment, providing assistance and modifications where possible. Opportunities for training and career development do not operate to the detriment of disabled employees.

Employee engagement

The employees are integral to achieving the business objectives of the Group. The Group is committed to creating an environment where all individuals feel respected and supported. RGF plc ensure that employees are kept informed of performance and strategy through regular updates from the management teams in the businesses. During FY22 the business has been returning to work from the office with more face-to-face meetings taking place. The Board meetings are now a mixture of face to face and virtual with the same format being used for both. The MD of the Cake Decoration division attends the meetings and key messages from the Board taken back to the business. During FY22 the Cake Decoration business put in place an online office communication system where people could post and comment on posts. All staff are invited to sign on and interact. The management team post monthly bulletins, this has replaced the written briefs that had been sent previously. The employees have the opportunity to raise questions, that are fed back and responded to by the Management. The business has started an employee forum with all areas of the business being encouraged to participate.

With the lifting of covid restrictions the sales team have been able to travel to customers again and customers are able to visit the factory.

Equal opportunities

The Group continues to embrace and champion the principles of equality of opportunity and diversity in all aspects of employment. Our employment policies and procedures are reviewed regularly 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.

The Group continues through our Leadership Framework to create opportunities for developing greater diversity throughout our management structures in the future.

Stakeholder engagement

The Group strives to maintain a regular dialogue with stakeholders including shareholders to enable any interested party to make informed decisions about the Group and its performance. The Board believes that greater transparency in its dealings offers a level of comfort to stakeholders and an understanding that their views will be heard and considered appropriately.

The Chairman as required holds regular meetings with minority shareholders to discuss the business and reports the discussions back to the Board.

Charitable and political donations

During the current financial period, the Group made charitable donations of £500 (2021: £1,250). No political donations were made during the current or previous financial period.

This report was approved by the Board on 30 September 2022 and is signed on its behalf by:

Mike Holt

Executive Chairman

Report of the Directors (continued)

Streamlined Energy and Carbon Reporting

SECR (Streamlined Energy and Carbon Reporting) was introduced by the government on 1 April 2019. The table below shows the information for RGF plc from the 1 April 2021 to 31 March 2022.

The Group collated the data using the billing data.

Scope 1 – All Direct Emissions from the activities of Real Good Food PLC or under their control, including fuel combustion on site such as gas boilers, fleet vehicles and air conditioning leaks.

Scope 2 – Indirect Emissions from electricity purchased and used by Real Good Food PLC. Also included are the generation or consumption of heat or steam. Emissions are created during the production of the energy and eventually used by Real Good Food PLC.

The assumptions made are:

All conversion data was taken from the most up to date supplied data at the time of delivery of this report. The government website for Greenhouse gas reporting: conversion factors 2020 was used to calculate the data.

Information	31 March 2022	31 March 21
Energy consumption used to calculate emissions: kWh	Gas – 6,077,919 kWh LPG – 0.54 kWh Petrol company cars – 17,104 kWh Diesel company cars – 15,931 kWh Electricity – 3,034.137 kWh Petrol private cars – n/a Diesel private cars – n/a Total – 9,145,093 kWh	Gas – 5,984,990 kWh LPG – 26.95 kWh Petrol company cars – n/a Diesel company cars – n/a Electricity – 9,217,506 kWh Petrol private cars – n/a Diesel private cars – n/a Total – 15,202,523 kWh
Emissions from combustion of gas tCO ₂ e (Scope 1)	1,113.2 tCO ₂ e	1,100.5 tCO ₂ e
Emissions from LPG (Scope 1)	1.6 tCO ₂ e	6.2 tCO ₂ e
Emissions from business travel in company owned vehicles (Scope 1)	8.1 tCO ₂ e	N/A
Emissions from purchased electricity (Scope 2, location-based)	644.2 tCO ₂ e	2,149 tCO ₂ e
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (Scope 3)	N/A	N/A
Total gross tCO ₂ e based on above	1,767.2 tCO ₂ e	3,256 tCO ₂ e
Intensity ratio: tCO ₂ e gross figure based on mandatory fields above/e.g. £100,000 revenue (taken from 5 Results)	Tonnes of output produced 0.1 tCO ₂ e per Tonne of output produced	Tonnes of output produced 0.17 per Tonne of output produced
Methodology	Monthly energy consumption data based on utility invoices, and vehicle mileage claims, converted to carbon emissions using DEFRA published Conversion factors for Company Reporting 2021 version 1.0	Data from Joe Castille DEFRA published Conversion Factors for Company Reporting 2020 version 1.0
Energy Efficient Actions being taken	To continue with the replacement of inefficient lighting with LED equivalent.	Continuous replacement of inefficient lighting with LED equivalent.

Audit Committee Report

The Audit Committee comprises Judith MacKenzie, as Chair and Gail Lumsden. The Committee is scheduled to meet formally three times a year with the auditor, in relation to the annual and interim accounts, but in addition, the Chairperson of the Committee also maintains a close dialogue with them throughout the year to ensure they remain apprised of relevant events. The Audit Committee met on four occasions during the year. Executive Directors are ordinarily present at Committee meetings by invitation only, with the CFO 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. The committee assesses whether suitable accounting policies have been adopted and whether management have made appropriate estimates and judgements. 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.

The Committee seeks to ensure continual improvements in the Group's governance in order to be and remain compliant with the QCA's Code of Best Practice for small to medium sized 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.

The Audit Committee held four meetings in the year, the following table sets out attendance during the year.

Director	Meetings attended
Members	
Judith MacKenzie	4
Gail Lumsden	3
Anthony Ridgwell (nominated to attend when G Lumsden was unavailable)	1
By Invitation	
Mike Holt	4
Maribeth Keeling	4

Audit Committee Report (continued)

Table showing key risks in the business

Description of Risk	Overview of Risk	Company response
Asset Impairment	<p>The Group has £16.6 million of goodwill, relating to excess of consideration paid to the fair value of acquisitions, and £9.1 million of property, plant and equipment, and intangible assets. The carrying value of goodwill is reviewed at least annually to check that it is not in excess of its recoverable amount.</p> <p>The value of property, plant and equipment and intangible assets are stated at cost less accumulated depreciation or amortisation and impairment losses.</p>	<p>Cash flow projections 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 Cake Decoration division. A sensitivity analysis was also applied to stress test the assumptions and future economic value of assets. These resulted in an impairment of £16.1 million being required for the Cake Decoration division. 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.</p>
Going Concern	<p>Given the losses incurred by the Group, and its level of indebtedness, the assumption of going concern has been subject to challenge.</p>	<p>The Board has critically reviewed the planned future performance of the Group and its cash flows and funding. Following the sale of Brighter Food, the reduction in the Net debt, the reduction in the interest rates for the loan notes, and the deferral of shareholder loan note repayments, the Committee, and the Board, as a whole, is satisfied that a going concern approach is appropriate. For the full going concern scenario considerations please see the Finance Review and Note 2 (a), which identifies material uncertainties in relation to going concern.</p>
Risk Register	<p>The Group is encouraged to identify business risks. The CFO presents the Risk Register to the Board on a bi-annual basis.</p>	<p>Significant business risks are identified and recorded on the Risk Register that is presented to the Group Board half yearly, or sooner if appropriate. The key areas at present are the increased costs and availability of raw material and the time lag on recovering the increases from our customers. The covid weekly Board calls have ceased as the business returned to normality following the covid changes; the Board meets outside of the planned monthly Board meetings as required.</p>
Senior Managers	<p>The MD is invited to each Board meeting to present on the Cake Decoration division.</p>	<p>The Board have the opportunity to talk directly with the MD of the division on a monthly basis and understand the business behind the numbers. The Board also invites members of the company management team to Board meetings to discuss their functions.</p> <p>The Board also plan to visit the Liverpool site now that all restrictions have been lifted post covid.</p>
Auditors	<p>Audit Rotation.</p>	<p>The Committee is responsible for recommending to the Board the appointment, reappointment, and removal of external auditors. The Committee has discussions on audit planning, plans, fees and audit findings and controls. The Committee assessed the effectiveness of the external audit through the review of audit plans, reports, and conclusions. Also, through discussions with management (with and without the auditor present) and with the auditors (with and without management present).</p> <p>As part of the Audit rotation, this will be the final year that the current partner will be in charge of the RGF plc audit.</p> <p>The Commitment and Authorities schedule within the business is reviewed annually by the Group Board.</p>
Disclosure of Related Party Transactions	<p>To ensure that related party transactions are transparent and approved.</p>	<p>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.</p>

Remuneration Committee Report

The Remuneration Committee comprises Gail Lumsden, as Chair, Judith MacKenzie and Anthony Ridgwell.

The Committee's primary role is to:

- determine and agree with the Board the framework of remuneration for the group of Executives within its remit.
- ensure effective performance management systems are in place to assess the performance of the Executives and the Company.
- set and review the remuneration for the plc Directors, selected senior management and the Company Chairman.
- oversee the implementation and operation of short and long-term incentive arrangements for senior management, and
- agree the policy for authorising claims for expenses from the Chairman and plc Directors.

The Directors' remuneration policy aims to align the interests of management with all shareholders and recognises the need to recruit, retain and appropriately incentivise high-calibre individuals to deliver the strategy set by the Board.

This report outlines the base salary, pension, benefits, and incentive plans, where appropriate, of all Board Executives.

Executive Director and Senior Management Remuneration

The Remuneration Committee ensures an appropriate balance between fixed and variable remuneration which meets the company's needs with targets being appropriately stretching, verifiable and relevant. This is achieved through a market related base salary (benchmarked against other AIM listed businesses of similar size and complexity), plus a range of benefits and an annual bonus scheme set to reward achievement of EBITDA targets and/or personal and strategic objectives.

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 three months' written notice.

The Non-Executive Directors are not 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.

Current Directors' base salaries and fees are disclosed in note 11.

The table below shows the FY22 attendance:

Director	Meetings attended
Members	
Gail Lumsden	3
Anthony Ridgwell	3
Judith Mackenzie	3

Independent Auditor's Report

to the members of Real Good Food plc

Opinion on the financial statements

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 2022 and of the Group's loss for the period then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Real Good Food plc (the 'Parent Company') and its subsidiaries (the 'Group') for the period ended 31 March 2022 which comprise the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the company statement of changes in equity, the consolidated statement of financial position, the company statement of financial position, the consolidated 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 Group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain 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.

Material uncertainty related to going concern

We draw attention to note 2(a) to the financial statements, which indicates that:

- The cash flow forecasts to be achieved over the next 12 months require several significant actions to be delivered successfully in the short term, including negotiating revenue price increases, making overhead cost reductions and making improvements in working capital management (specifically inventory reductions);
- The cash flow forecasts are based upon the approval of new loans totalling £2.5 million being obtained, which includes an additional £1.0 million of shareholder loans, and an incremental £1.5 million asset-backed loan. Securing the incremental asset-backed loan requires a re-financing of the existing facilities to an alternative provider. While discussions have commenced with asset-backed lenders and shareholders, these are not yet agreed; and
- The cash flow forecasts are based upon the extension of the maturity of the shareholder loan notes and convertible loan notes from May 2023 to at least May 2024, which is not yet formally committed.

As stated in note 2(a), these events or conditions, along with other matters as set out in note 2(a), indicate that a material uncertainty exists that may cast significant doubt on the Group and Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In light of the material uncertainty related to going concern and the fact that the Directors exercise significant judgement in determining the forecasted future cash flows and the underlying business plan required in both a base case and in reverse' stress scenarios, we considered the audit of the Group and Parent Company's ability to continue to adopt the going concern basis of accounting to be a key audit matter. Our response to the key audit matter, and our evaluation of the Directors assessment, included:

We have challenged the business plan approved by the Directors, including the forecasts, sensitised stressed forecasts and reverse stress tests by performing the following procedures:

- We have checked that the forecasts used in the going concern assessment were consistent with those used in the impairment assessment;
- We tested the arithmetic accuracy of the forecasts and the consistency and accuracy of the formulas applied;
- We challenged the assumptions used in the forecast period by considering available evidence, including recent performance post year end, as well as past trading performance, to support these assumptions;
- We evaluated the forecast compliance with covenants for at least the next 12 months, including sensitivities applied on these; and
- We reviewed the going concern disclosures, and assessed its consistency with the directors assessment.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage	90% (2021: 89%) of Group revenue		
	97% (2021: 90%) of Group total assets		
Key audit matters		2022	2021
	Going Concern	✓	✓
	Asset Impairment	✓	✓
Materiality	Group financial statements as a whole		
	£407,000 (2021:£428,000) based on 1% (2021: 0.75%) of total revenue including discontinued operations		

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

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 two (2021: three) significant components for the purposes of the Group audit. The audit of all of the significant components was performed by the Group audit team and a full scope audit was performed in each case.

The Group audit team performed analytical procedures on the non-significant components.

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) that 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. In addition to the matter described in the Material uncertainty in relation to going concern section of our report, we have determined the matter described below to be a key audit matter.

Key audit matter	How the scope of our audit addressed the key audit matter
<p>Asset impairment</p> <p>Impairments are discussed in Note 2(j), Note 2(r) (significant accounting policies), Note 3(a) (critical accounting estimates and judgements), Note 16 (Goodwill) and Note 19 (Investments).</p> <p>Following the impact of Covid-19 on the Group, 2022 saw additional challenges posed by rising raw material and energy costs.</p> <p>This has created challenging trading conditions and caused subsidiary results to fluctuate which highlight potential indicators of impairment. Specifically, this relates to the Group's goodwill in the Cake Decoration cash generating unit (CGU) and the Parent Company's investment in subsidiaries.</p> <p>The Directors assessment showed an impairment was required, both of the goodwill arising on consolidation, and the investment in subsidiaries held in the parent company.</p> <p>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 and therefore considered this to be a key audit matter.</p>	<p>We challenged the assumptions and forecasts made by the Directors to assess the recoverability of the carrying amount of the Group's goodwill and the Parent Company's investments, by performing the following procedures:</p> <ul style="list-style-type: none"> ○ 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 for key decision making regarding the use of the going concern assumption; ○ We challenged the cash flow forecasts and the growth rates for the 2022/23 and 2023/24 financial years and beyond by gathering evidence available to support these assumptions including sales plans and cost forecasts, their consistency with findings from other areas of our audit and analysis against forecasting and results in previous periods, and by performing a sensitivity analysis; and ○ With assistance of our internal valuation experts; <ul style="list-style-type: none"> – We assessed the appropriateness of the discount rates applied in the model through independent recalculation using market data for comparable companies; and – We assessed the reasonability of long-term growth rates with reference to external market data. <p>Key observations</p> <p>Based on the audit procedures above we considered the judgements made in relation to the impairment of assets to be appropriate.</p>

Independent Auditor's Report (continued)

to the members of Real Good Food plc

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

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

	Group financial statements		Parent company financial statements	
	2022	2021	2022	2021
Materiality	£407,000	£428,000	£203,000	£79,600
Basis for determining materiality	1% of total revenue, including discontinued operations	0.75% of total revenue, including discontinued operations	Materiality was restricted to 50% of Group materiality	2% of net assets excluding intercompany balances
Rationale for the benchmark applied	As the group fluctuates between profit making and loss making, we consider that total revenue is the most appropriate benchmark for determining materiality as it is both stable and a key measure of performance of the Group.		We have capped materiality for the Parent Company at 50% of group materiality.	We consider this basis is most appropriate for a holding company.
Performance materiality	£284,900	£299,000	£142,100	£55,700
Basis for determining performance materiality	The performance materiality threshold was chosen as 70% to reflect some areas subject to estimation uncertainty. This is in line with the prior year.			

Component materiality

We set materiality for each component of the Group based on a percentage of between 30% and 90% of Group materiality (2021: 19% and 90%) dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £122,100 to £366,300 (2021: £79,600 to £385,000). In the audit of each component, we further applied performance materiality levels of 70% of the component materiality (2021: 70% of the component materiality) to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £16,280 (2021: £17,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report

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.

In the light of the knowledge and understanding of the Group and 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.

Matters on which we are required to report by exception

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 Statement of Directors' responsibilities, 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.

Independent Auditor's Report (continued)

to the members of Real Good Food plc

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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Based on our understanding of the laws and regulations applicable to the Group, our accumulated knowledge of the Group, and the sectors in which it operates we considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud and whether such actions or non-compliance might have a material effect on the financial statements. These included but were not limited to those that relate to the form and content of the financial statements, such as the Group accounting policies, the financial reporting framework, the UK Companies Act 2006 and the AIM Rules; and industry related such as compliance with health and safety legislation, employment law and taxation legislation. All team members were briefed to ensure they were aware of any relevant regulations in relation to their work.

We obtained an understanding of the control environment in monitoring compliance with laws and regulations, enquired with management regarding their knowledge of any matters pertaining to compliance with laws and regulations during the year, and reviewed legal correspondence to assess these had been considered appropriately.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries, the recording of revenue around the year end and management bias in accounting estimates. Our audit procedures included, but were not limited to:

- Agreement of the financial statement disclosures to underlying supporting documentation;
- Challenging assumptions and judgements made in significant accounting estimates, in particular in relation to the Group's defined benefit pension scheme and impairment of goodwill to identify any potential bias;

- Testing of a sample of items of revenue for significant components around the year end to supporting documentation to determine if they have been recorded in the correct period.
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or including specific keywords;
- Holding discussions with management and those charged with governance, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud; and
- Review of minutes of Board meetings throughout the period, to identify any inconsistencies with our audit work or matters of which we needed to be aware.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: 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, UK

30 September 2022

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 2022

	Notes	12 months ended 31 March 2022 £'000s	12 months ended 31 March 2021 £'000s
Revenue	4, 5	40,431	37,292
Cost of sales		(24,301)	(22,128)
Gross profit		16,130	15,164
Income from Government Furlough Scheme		–	1,205
Other operating income		56	48
Distribution expenses		(3,960)	(3,615)
Administrative expenses		(12,902)	(14,266)
Operating loss before impairment and significant items		(676)	(1,464)
Impairment charge on goodwill	16	(16,103)	–
Significant items	6	(310)	203
Operating loss after impairment and significant items	8	(17,089)	(1,261)
Finance costs	9	(1,891)	(4,665)
Other finance costs	10	2	(182)
Loss before tax		(18,978)	(6,108)
Income tax (charge)/credit	14	(2,384)	27
Loss from continuing operations		(21,362)	(6,081)
Profit from discontinued operations (assets held for sale)	35	19,986	2,617
Net loss		(1,376)	(3,464)
Attributable to:			
Owners of the parent		(1,376)	(3,856)
Non-controlling interests		–	392
Net loss		(1,376)	(3,464)
Items that will or may be reclassified to profit or loss			
Foreign exchange differences on translation of subsidiaries		(25)	65
Items that will not be reclassified to profit or loss			
Actuarial profit/(loss) on defined benefit plan	32	501	(107)
Tax relating to items which will not be reclassified	20	527	(102)
Other comprehensive profit/(loss)		1,003	(144)
Total comprehensive loss for the year		(373)	(3,608)
Attributable to:			
Owners of the parent		(373)	(4,000)
Non-controlling interests		–	392
Total comprehensive loss for the year		(373)	(3,608)
	Notes	12 months ended 31 March 2022 £'000s	12 months ended 31 March 2021 £'000s
Basic and diluted loss per share – continuing operations	15	(21.46)p	(6.50)p
Basic earnings per share – discontinued operations	15	20.07p	2.63p
Diluted earnings per share – discontinued operations	15	6.23p	0.82p

The notes on pages 33 to 69 form part of these financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 March 2022

	Issued Share Capital £'000s	Share Premium Account £'000s	Other Reserves £'000s	Share Option Reserve £'000s	Foreign Exchange Translation Reserve £'000s	Retained Earnings £'000s	Total £'000s	Non- Controlling Interest £'000s	Total Equity £'000s
Balance as at 31 March 2020	1,991	3,294	(4,796)	203	(125)	3,783	4,350	2,806	7,156
Loss for the year	–	–	–	–	–	(3,856)	(3,856)	392	(3,464)
Other comprehensive (loss)/gain for the year	–	–	–	–	65	(210)	(145)	–	(145)
Total comprehensive (loss)/gain for the year	–	–	–	–	65	(4,065)	(4,000)	392	(3,608)
Transactions with owners of the Group, recognised directly in equity									
Share options lapsed in year	–	–	–	(200)	–	–	(200)	–	(200)
Total contributions by and distributions to owners of the Group	–	–	–	(200)	–	–	(200)	–	(200)
Balance as at 31 March 2021	1,991	3,294	(4,796)	3	(60)	(282)	150	3,198	3,348
Total comprehensive loss for the year									
Loss for the year	–	–	–	–	–	(1,376)	(1,376)	(3,198)	(4,574)
Other comprehensive (loss)/gain for the year	–	–	–	–	(25)	1,028	1,003	–	1,003
Total comprehensive (loss)/gain for the year	–	–	–	–	(25)	(348)	(373)	(3,198)	(3,571)
Transactions with owners of the Group, recognised directly in equity									
Release of put option reserve	–	–	4,796	–	–	–	4,796	–	4,796
Share options lapsed in year	–	–	–	(3)	–	–	(3)	–	(3)
Waiver of debt by loan note holders	–	–	540	–	–	–	540	–	540
Total contributions by and distributions to owners of the Group	–	–	5,336	(3)	–	(348)	5,333	–	5,333
Balance as at 31 March 2022	1,991	3,294	540	–	(85)	(630)	5,110	–	5,110

The notes on pages 33 to 69 form part of these financial statements.

Company Statement of Changes in Equity

Year ended 31 March 2022

	Issued Share Capital £'000s	Share Premium Account £'000s	Share Option Reserve £'000s	Retained Earnings £'000s	Total Equity £'000s
Balance as at 31 March 2020	1,991	3,294	203	(7,712)	(2,224)
Loss for the year	–	–	–	(6,174)	(6,174)
Other comprehensive loss for the year	–	–	–	93	93
Total comprehensive loss for the year	–	–	–	(6,081)	(6,081)
Transactions with owners of the Group, recognised directly in equity					
Share options lapsed in year	–	–	(200)	–	(200)
Total contributions by and distributions to owners of the Group	–	–	(200)	–	(200)
Balance as at 31 March 2021	1,991	3,294	3	(13,793)	(8,505)
Total comprehensive loss for the year					
Loss for the year	–	–	–	(44,884)	(44,884)
Other comprehensive loss for the year	–	–	–	(634)	(634)
Total comprehensive loss for the year	–	–	–	(45,518)	(45,518)
Transactions with owners of the Group, recognised directly in equity					
Shares options lapsed in the year	–	–	(3)	–	(3)
Total contributions by and distributions to owners of the Group	–	–	–	–	–
Balance as at 31 March 2022	1,991	3,294	–	(59,311)	(54,026)

The notes on pages 33 to 69 form part of these financial statements.

Consolidated Statement of Financial Position

Year ended 31 March 2022

	Notes	31 March 2022 £'000s	31 March 2021 £'000s
NON-CURRENT ASSETS			
Goodwill	16	16,619	32,722
Other intangible assets	17	–	9
Tangible fixed assets	18	8,066	8,548
Investments	19	–	–
Deferred tax asset	20	–	1,426
		24,685	42,705
CURRENT ASSETS			
Inventories	21	4,024	3,597
Trade and other receivables	22	6,572	7,248
Retirement benefit asset	32	1,497	–
Cash collateral	13	50	215
Cash and cash equivalents		2,734	622
		14,877	11,682
Assets classed as held for sale	33	1,078	20,157
TOTAL ASSETS		40,640	74,544
CURRENT LIABILITIES			
Trade and other payables	25	6,665	8,087
Current tax liability		4	–
Borrowings	23	3,718	2,659
Lease liabilities	24	48	93
NCI put option	26	–	1,553
		10,435	12,392
Liabilities classed as held for sale	33	–	4,442
NON-CURRENT LIABILITIES			
Borrowings	23	24,293	46,624
Lease liabilities	24	155	–
Derivative liability – convertible loan notes	26	–	17
Deferred tax liabilities	20	647	216
Retirement benefit obligation	32	–	7,505
		25,095	54,362
TOTAL LIABILITIES		35,530	71,196
NET ASSETS		5,110	3,348
EQUITY			
Share capital	27	1,991	1,991
Share premium account		3,294	3,294
Other reserves		540	(4,796)
Share option reserve		–	3
Foreign exchange translation reserve		(85)	(60)
Retained earnings		(630)	(282)
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		5,110	150
Non-controlling Interest		–	3,198
TOTAL EQUITY		5,110	3,348

These financial statements were approved by the Board of Directors and authorised for issue on 30 September 2022.

They were signed on its behalf by:

Mike Holt **Maribeth Keeling**
Executive Chairman Chief Financial Officer

The notes on pages 33 to 69 form part of these financial statements.

Company Statement of Financial Position

Year ended 31 March 2022

Registered Company Number: 04666282

	Notes	31 March 2022 £'000s	31 March 2021 £'000s
NON-CURRENT ASSETS			
Investments	19	8,980	54,670
Property, plant, and equipment	18	94	118
Deferred tax asset	20	–	1,426
		9,074	56,214
CURRENT ASSETS			
Trade and other receivables	22	8,668	7,855
Retirement benefit asset	32	1,497	–
Cash collateral	13	50	215
Cash and cash equivalents		1,636	17
		11,851	8,087
Assets classed as held for sale	33	930	1,000
TOTAL ASSETS		21,855	65,301
CURRENT LIABILITIES			
Trade and other payables	25	51,948	20,845
		51,948	20,845
NON-CURRENT LIABILITIES			
Borrowings	23	23,559	45,439
Derivative liability – Convertible loan notes	26	–	17
Deferred tax liability	20	374	–
Retirement benefit obligation	32	–	7,505
		23,933	52,961
TOTAL LIABILITIES		75,881	73,806
NET LIABILITIES		(54,026)	(8,505)
EQUITY			
Share capital	27	1,991	1,991
Share premium account		3,294	3,294
Share option reserve		–	3
Retained earnings		(59,311)	(13,793)
TOTAL EQUITY		(54,026)	(8,505)

Real Good Food plc (the Company) reported a total comprehensive loss for the year ended 31 March 2022 of £45.5 million (2021: loss of £6.1 million). The Directors have taken advantage of the exemption available under Section 408 of the Companies Act and have not presented a statement of comprehensive income for the Company.

These financial statements were approved by the Board of Directors and authorised for issue on 30 September 2022.

They were signed on its behalf by:

Mike Holt **Maribeth Keeling**
Executive Chairman Chief Financial Officer

The notes on pages 33 to 69 form part of these financial statements.

Consolidated Cash Flow Statement

Year ended 31 March 2022

	Notes	31 March 2022 £'000s	31 March 2021 £'000s
CASH FLOW FROM OPERATING ACTIVITIES			
Adjusted for:			
Profit/(loss) before taxation		1,008	(3,491)
Finance and other finance costs	9, 10	1,889	4,856
Share options reserve credit		(3)	(200)
Foreign exchange movement		(3)	308
Goodwill impairment charge	16	16,103	–
Impairment charge on assets held for sale	33	70	–
Profit on disposal of subsidiary		(19,986)	31
Loss on disposal of property, plant and equipment		–	7
Fair value of derivative liability		–	17
Fair value of NCI put option		–	(1,302)
Depreciation of property, plant, and equipment	18	1,326	2,435
Amortisation of intangibles	17	9	52
Operating Cash Flow		413	2,713
(Increase)/decrease in inventories		(915)	676
Decrease in receivables		2,606	23
Pension contributions	32	(8,500)	(720)
Decrease in cash collateral		165	–
(Decrease)/increase in payables		(2,518)	953
Cash (used by)/from operations		(8,749)	3,645
Interest paid		(139)	(86)
Interest on leases		–	(26)
Net cash (outflow)/inflow from operating activities		(8,888)	3,533
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant, and equipment		(844)	(567)
Disposal of subsidiary, net of cash disposed of	35	33,153	–
Cost of disposal of subsidiary		(1,138)	50
Net cash inflow/(outflow) from investing activities		31,171	(517)
CASH FLOW USED IN FINANCING ACTIVITIES			
Repayment of lease liabilities	24	(113)	(402)
Outflow of term loans	13	(865)	(865)
Interest paid on investor loans	13	(5,310)	–
Inflow of other loans	23	–	(35)
Repayment of investor loans	23	(17,790)	–
Drawdowns on revolving credit facilities		36,045	42,816
Repayments on revolving credit facilities		(34,571)	(42,876)
Net cash outflow from financing activities		(22,604)	(1,362)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(321)	1,654
CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of period		3,080	1,363
Effects of currency translations on cash and cash equivalents		(25)	63
Net movement in cash and cash equivalents		(321)	1,654
Cash and cash equivalents at end of period		2,734	3,080
Continuing operations		2,734	622
Discontinued operations	33	–	2,458
Cash and cash equivalents at end of period		2,734	3,080

Notes to the Financial Statements

Year ended 31 March 2022

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 229 Crown Street, Liverpool L8 7RF. 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 accounting standards and have been prepared in accordance with AIM rules and the Companies Act 2006, and in accordance with UK adopted international accounting standards.

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 notes 2 and 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 operation 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.

During the twelve months to 31 March 2022, the Group sold Brighter Foods Limited to THG plc on the 11 May 2021.

Any references to discontinued operations throughout this report refers to Brighter Foods Limited.

IFRS standards and interpretations adopted

New standards and amendments which are effective from 1 January 2022, and have been adopted within the Group's accounting policies are:

- Amendments to IFRS 3 Business combinations;
- Amendments to IAS 16 Property, Plant and Equipment;
- Amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets;

The adoption of the amendments to IFRS 1, IFRS 9 and IAS 41, have not had an impact on the financial statements of the Group.

The Group does not expect any standards issued by the IASB, but not yet effective, to have a material impact on the Group.

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, on a going concern basis.

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 9. The financial position of the Group, its cash flows and liquidity position are described in the Finance Review on page 10. 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.

Going Concern

The financial statements are prepared on a going concern basis, which the Directors believe to be appropriate for the following reasons.

The forecasts are prepared on a Group basis and therefore include underlying forecasts and assumptions for the subsidiaries and the Parent Company. For this reason, the Group is referred to in the following paragraphs when discussing forecasting and events as all are interdependent on one another.

The Group incurred a loss on continuing operations before tax and impairment of £2.9 million in the year to 31 March 2022 (2021: £6.1m loss) and at 31 March 2022 had net current assets of £5.1m (2021: £15.0m) and net assets of £5.1m (2021: £3.3m). The Group manages its day-to-day working capital requirement using various facilities with Leumi ABL. At the year end the available Group finance facilities, provided by Leumi ABL, totalled £6.6m, of which £5.0m was utilised. The Group shareholder loan notes and convertible loan notes, totalled £23.6m and are classified as creditors due after one year, and are repayable on 19 May 2023.

The Directors have prepared financial forecasts for the Group, comprising income statements, balance sheets and cash flows through to March 2024 which have been approved by the Board. In assessing the appropriateness of the Group's accounts being prepared on a going concern basis, the Directors have considered factors likely to affect its planned future performance and reasonably possible downside sensitivity scenarios.

As noted in the Strategic Report and Business Review on page 5, the macroeconomic headwinds are very challenging and are expected to continue for the immediate future given the wider economic outlook. A radical reform of the business has commenced, which requires the support of new funding, in order to return the Group to profitability and to position it for sustainable growth once economic conditions improve. The new funding requirement is £2.5m of which £1.0m has been pledged but not yet formally committed by existing Loan Note Holders.

Due to the current (and severe) inflationary cost pressures impacting consumer demand, and the ongoing difficulty in sourcing key ingredients and services, sales volumes are forecast to be 20% lower than FY22. New customers and product launches during FY22 and FY23, the unwinding of inventory on hand, actions from the restructuring plan including re-setting sales pricing particularly within UK retail, together with overhead savings and manufacturing operational efficiencies have been factored into FY23 and FY24 projections.

Notes to the Financial Statements (continued)

Year ended 31 March 2022

2. Significant accounting policies continued

The cash flow forecasts reflect the introduction of a new finance facility of £7.5 million, of which £1.5 million would be incremental to the Group's current facilities, and an additional £1.0 million of shareholder loans. Discussions are underway with asset-backed lenders to provide the new asset-backed facility of circa £7.5 million, comprising a term loan of £2.3 million and circa £5.0 million invoice discount facility, underpinned by asset security and the recovery plan to replace the current Leumi ABL facility. The additional £1.0 million of shareholder loans has been pledged and discussions are ongoing as to the pricing of this and the ranking of shareholder loans between Loan Note Holders. No new funding agreements have been formally signed as of the date of signing the financial statements as the two funding arrangements are mutually conditional.

The Board has reviewed the sensitivity of the sales and the effects of these have been modelled.

The Directors considered the potential impact of a reduction in the volume of revenue by 5% throughout the year. Without any mitigating action, Group cash would reduce to £nil in March 2023. However, were there to be this level of lower sales, mitigating action would be taken quickly with an immediate cessation of discretionary spend. The short-term plan would be a reduction in the number of factory and overhead staff, and general overheads. Although there could be a 3-month time lag on implementing any people changes, these changes would create liquidity headroom with the low point of cash availability then being June 2023 when cash would reduce to £0.2 million as a result of the stock build for Quarter 3 (October to December).

The current banking covenants that are in place for FY23 remain the same as FY22.

The covenants are a rolling 3-month EBITDA being within 80% of the forecast and greater than £5 million tangible net worth. The covenants are not breached on the stressed scenarios including mitigating action, referred to above. However, a new finance provider may require different covenants to the above.

The principal shareholders of the Group continue to show considerable support.

Based on the Directors review of the above, there are three key areas which indicate the existence of a material uncertainty which may cast significant doubt on the Group and Parent Company's ability to continue as a going concern, which are as follows:

- The cash flow forecasts to be achieved by the Group over the next 12 months require several significant actions to be delivered successfully in the short-term, including the Group negotiating customer price uplifts as part of an overall price reset (in addition to the ability to pass on increased inflationary cost pressures to customers), making overhead cost reductions and making improvements in working capital management (specifically inventory reductions). The achievability of the cash flow forecasts based on the restructuring of the business has some execution risk, as well as the impact of wider economic headwinds, particularly in relation to duration and the effect on consumer demand for our products. However, with support from customers and employees, the Directors consider these actions to be achievable.
- The cash flow forecasts are based upon the approval of new loans totalling £2.5 million being obtained, including an additional £1.0 million of shareholder loans. In order to secure the incremental £1.5 million asset-backed loan, the business requires a re-financing of the existing facilities currently funded by Leumi ABL to an alternative provider. Discussions have already commenced with asset-backed lenders but are yet to be agreed.

- The cash flow forecasts are based upon the extension of the maturity of the shareholder loan notes and convertible loan notes from May 2023 to at least May 2024, which are pledged, however the documentation is not yet formally committed.

If these targeted actions and forecasts are not able to be delivered, or the new bank and shareholder loans identified above are not secured, the Group may not be able to operate within its existing cash and financing facilities and would therefore need alternative and/or additional funding in excess of those noted above.

In light of the above, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, the factors described above indicate the existence of a material uncertainty which may cast significant doubt on the Group and Parent Company's ability to continue as a going concern and to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

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 dispatched. Sales are recorded net of discounts, Value Added Tax (VAT) and other sales-related taxes. Goods are deemed to be dispatched when the distribution company has collected the goods from the warehouse and is delivering them to the customer. Sale of goods to international customers where the sale includes delivery, the revenue is not recognised in the accounts until the sale has been delivered to our customer.
- 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 include 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 marketing 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. Refunds: Refunds are issued to customers when product is damaged or not fit for purpose upon receipt. Refunds are recorded net of discounts, Value Added Tax (VAT) and other sales-related taxes.

2. Significant accounting policies continued

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 enacted or substantially enacted 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 32 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:

Right of use assets	Length of lease
Land and buildings	
Freehold buildings	40 to 50 years
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

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

The Group leases manufacturing facilities, company cars and other plant and machinery.

Upon inception of a contract, an assessment is performed to determine whether the contract is or contains a lease. A right of use asset and a corresponding lease liability is recognised on the statement of financial position for all lease arrangements where the Group is a lessee, except for those which are short-term or low value. Short-term and low value leases are accounted for by recognising the lease payment within administrative expenses on a straight-line basis over the lease term.

The lease liability is initially measured at the present value of the future lease payments at the commencement date, discounted using the rate implicit in the lease if this is readily determined, or otherwise using the incremental borrowing rate. The incremental borrowing rate is the rate of interest that the Group would have to pay to borrow, over a similar term and with similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment.

The lease payments included in the measurement of the lease liability comprise lease payments in addition to any other payments reasonably certain to be made such as termination penalties upon early termination of the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease using the effective interest rate method and reducing the carrying amount to reflect the lease payments made.

The lease liability is remeasured if:

- The lease term has changed; in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- The lease payments change due to changes in an index or rate, in which case the lease liability is remeasured using the initial discount rate; or
- The lease contract is modified, and the modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Notes to the Financial Statements (continued)

Year ended 31 March 2022

2. Significant accounting policies continued

The right of use asset is measured at an amount equal to the corresponding lease liability and is subsequently measured at cost less accumulated depreciation and impairment losses. Right of use assets are depreciated over the lease term. Right of use assets are included in the Property, Plant & Equipment.

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 are 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.

n) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. The Group calculates impairments using an expected credit loss model, based upon the payment history of their customers, and any resultant bad debt write downs they have incurred. The occurrence of bad debt has been rare in the business.

o) Trade payables

Trade payables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest rate 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 a revolving credit facility of £5.45 million with Leumi ABL Limited secured on the trade debtors on a 60-month term. This facility is secured against the debtors of JF Renshaw Limited and Rainbow Dust Colours Limited, with an interest rate of 2.25% above London Sterling Overnight Index Average for Sterling Advances (SOIASA). Trade debtors remain assets of the Group and are shown at the total amount collectable. Liabilities under this arrangement are shown in borrowings.

The Group has shareholder loans including convertible loan notes previously repayable on or before 19 May 2023 on which the repayment date has been agreed to move to 19 May 2024, the documentation is not yet finalised. They can be converted at any time into shares at the holder's option. The majority of interest on the shareholder loans is deferred. A host loan at amortised cost and an embedded derivative liability, being measured at fair value with changes in value being recorded in profit or loss, have been recognised.

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 expenses 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.

2. Significant accounting policies continued

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.

Grants which have been received in respect of the Corona-virus job retention scheme have been accounted for and presented separately on the face of the Statement of Comprehensive Income, rather than by reducing the related expense.

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 owing 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.

a) Impairment of goodwill

An impairment of goodwill has the potential to impact significantly 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 5-year period, with a terminal value applied to the fifth year, 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 1%. An increase in the discount rate would result in a reduction of the Plan liabilities and an increase in the rate of inflation would increase the liabilities of the Plan.

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 changes 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 interest income from Plan assets and an interest charge on Plan liabilities. These calculations are based on the discount rate at the start of the financial year. The Statement of Comprehensive Income is most sensitive to changes in the discount rate used to calculate the interest income from Plan assets and 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 32.

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.

d) Going concern

The financial statements are prepared on a going concern basis, which the Directors believe to be appropriate for the following reasons.

The forecasts are prepared on a Group basis and therefore include underlying forecasts and assumptions for the subsidiaries and the Parent Company.

Notes to the Financial Statements (continued)

Year ended 31 March 2022

3. Critical accounting estimates and judgements continued

For this reason, the Group is referred to in the following paragraphs when discussing forecasting and events as all are interdependent on one another.

The Group incurred a loss on continuing operations before tax and impairment of £2.9 million in the year to 31 March 2022 (2021: £6.1m loss) and at 31 March 2022 had net current assets of £5.1m (2021: £15.0m) and net assets of £5.1m (2021: £3.3m). The Group manages its day-to-day working capital requirement using various facilities with Leumi ABL. At the year end the available Group finance facilities, provided by Leumi ABL, totalled £6.6m, of which £5.0m was utilised. The Group shareholder loan notes and convertible loan notes, totalled £23.6m and are classified as creditors due after one year, and are repayable on 19 May 2023.

The Directors have prepared financial forecasts for the Group, comprising income statements, balance sheets and cash flows through to March 2024 which have been approved by the Board. In assessing the appropriateness of the Group's accounts being prepared on a going concern basis, the Directors have considered factors likely to affect its planned future performance and reasonably possible downside sensitivity scenarios.

As noted in the Strategic Report and Business Review on page 5, the macroeconomic headwinds are very challenging and are expected to continue for the immediate future given the wider economic outlook. A radical reform of the business has commenced, which requires the support of new funding, in order to return the Group to profitability and to position it for sustainable growth once economic conditions improve. The new funding requirement is £2.5m of which £1.0m has been pledged but not yet formally committed, by existing Loan Note Holders.

Due to the current (and severe) inflationary cost pressures impacting consumer demand, and the ongoing difficulty in sourcing key ingredients and services, sales volumes are forecast to be 20% lower than FY22. New customers and product launches during FY22 and FY23, the unwinding of inventory on hand, actions from the restructuring plan including re-setting sales pricing particularly within UK Retail, together with overhead savings and manufacturing operational efficiencies have been factored into FY23 and FY24 projections.

The cash flow forecasts reflect the introduction of a new finance facility of £7.5 million, of which £1.5 million would be incremental to the Group's current facilities, and an additional £1.0 million of shareholder loans. Discussions are underway with asset-backed lenders to provide the new asset-backed facility of circa £7.5 million, comprising a term loan of £2.3 million and circa £5.0 million invoice discount facility, underpinned by asset security and the recovery plan to replace the current Leumi ABL facility. The additional £1.0 million of shareholder loans has been pledged and discussions are ongoing as to the pricing of this and the ranking of shareholder loans between Loan Note Holders. No new funding agreements have been formally signed as of the date of signing the financial statements as the two funding arrangements are mutually conditional.

The Board has reviewed the sensitivity of the sales and the effects of these have been modelled.

The Directors considered the potential impact of a reduction in the volume of revenue by 5% throughout the year. Without any mitigating action, Group cash would reduce to £nil in March 2023. However, were there to be this level of lower sales, mitigating action would be taken quickly with an immediate cessation of discretionary spend. The short-term plan would be a reduction in the number of factory and overhead staff, and general overheads. Although there could be

a 3-month time lag on implementing any people changes, these changes would create liquidity headroom with the low point of cash availability then being June 2023 when cash would reduce to £0.2 million as a result of the stock build for Quarter 3 (October to December).

The current banking covenants that are in place for FY23 remain the same as FY22.

The covenants are a rolling 3-month EBITDA being within 80% of the forecast and greater than £5 million tangible net worth. The covenants are not breached on the stressed scenarios including mitigating action, referred to above. However, a new finance provider may require different covenants to the above.

The principal shareholders of the Group continue to show considerable support.

Based on the Directors review of the above, there are three key areas which indicate the existence of a material uncertainty which may cast significant doubt on the Group and Parent Company's ability to continue as a going concern, which are as follows:

- The cash flow forecasts to be achieved by the Group over the next 12 months require several significant actions to be delivered successfully in the short-term, including the Group negotiating customer price uplifts as part of an overall price reset (in addition to the ability to pass on increased inflationary cost pressures to customers), making overhead cost reductions and making improvements in working capital management (specifically inventory reductions). The achievability of the cash flow forecasts based on the restructuring of the business has some execution risk, as well as the impact of wider economic headwinds, particularly in relation to duration and the effect on consumer demand for our products. However, with support from customers and employees, the Directors consider these actions to be achievable.
- The cash flow forecasts are based upon the approval of new loans totalling £2.5 million being obtained including an additional £1.0 million of shareholder loans. In order to secure the incremental £1.5 million asset-backed loan, the business requires a re-financing of the existing facilities currently funded by Leumi ABL to an alternative provider. Discussions have already commenced with asset-backed lenders but are yet to be agreed.
- The cash flow forecasts are based upon the extension of the maturity of the shareholder loan notes and convertible loan notes from May 2023 to at least May 2024, which are agreed, however the documentation is not yet formally committed.

If these targeted actions and forecasts are not able to be delivered, or the new bank and shareholder loans identified above are not secured, the Group may not be able to operate within its existing cash and financing facilities and would therefore need alternative and/or additional funding in excess of those noted above.

In light of the above, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, the factors described above indicate the existence of a material uncertainty which may cast significant doubt on the Group and Parent Company's ability to continue as a going concern and to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Long term funding

The Board has agreed with the investors to continue to roll up interest on the loans to conserve cash. The Board would expect to make Investor loan repayments on a divestment of a business

4. Revenue

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

Cake Decoration	£40.4 million (2021 £37.3m)	Manufactures, sells, and supplies cake decorating products and ingredients for the baking sector.
Discontinued Operations (Food Ingredients)	£1.3 million (2021 £19.8m)	Manufactures and supplies a range of snack bars to the retail sector.

5. Segment reporting

Business segments

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

The Group operates in one main division: Cake Decoration. The Head Office has a finance function that supports the subsidiary as required.

12 months ended 31 March 2022	Cake Decoration £'000s	Head Office and non-trading subsidiaries £'000s	Continuing Operations £'000s	Discontinued Operations £'000s	Total Group £'000s
Total revenue	42,545	–	42,545	1,275	43,820
Intercompany sales	(2,114)	–	(2,114)	–	(2,114)
External revenue	40,431	–	40,431	1,275	41,706
Cost of sales	(24,301)	–	(24,301)	(1,063)	(25,364)
Gross profit	16,130	–	16,130	212	16,342
Income from Furlough Scheme	–	–	–	137	137
Other operating income	25	31	56	–	56
Distribution expenses	(3,960)	–	(3,960)	(47)	(4,007)
Administrative expenses	(12,396)	(506)	(12,902)	(403)	(13,305)
Operating (loss) / profit before impairment and significant items	(201)	(475)	(676)	(101)	(777)
Impairment charge	–	(16,103)	(16,103)	–	(16,103)
Significant Items	(254)	(56)	(310)	(229)	(539)
Operating (loss)/profit after impairment and significant items	(455)	(16,634)	(17,089)	(330)	(17,419)
Finance costs	(138)	(1,752)	(1,891)	–	(1,891)
Other finance costs	–	2	2	–	2
(Loss)/profit before tax	(593)	(18,384)	(18,978)	(330)	(19,308)
Income tax credit/(expense)	–	(2,384)	(2,384)	–	(2,384)
Profit on disposal	–	–	20,316	–	20,316
(Loss)/profit after tax as per comprehensive statement of income	(593)	(20,768)	(1,046)	(330)	(1,376)

Notes to the Financial Statements (continued)

Year ended 31 March 2022

5. Segment reporting continued

12 months ended 31 March 2021	Cake Decoration £'000s	Head Office and non-trading subsidiaries £'000s	Continuing Operations £'000s	Discontinued Operations £'000s	Total Group £'000s
Total revenue	40,206	–	40,206	19,788	59,994
Intercompany sales	(2,914)	–	(2,914)	–	(2,914)
External revenue	37,292	–	37,292	19,788	57,080
Cost of sales	(22,128)	–	(22,128)	(12,992)	(35,120)
Gross profit	15,164	–	15,164	6,796	21,960
Income from Furlough Scheme	1,205	–	1,205	461	1,666
Other operating income	–	48	48	49	97
Distribution expenses	(3,615)	–	(3,615)	(411)	(4,026)
Administrative expenses	(13,657)	(609)	(14,266)	(4,100)	(18,366)
Operating (loss) / profit before impairment and significant items	(903)	(561)	(1,464)	2,795	1,331
Significant Items	(763)	966	203	(169)	34
Operating (loss)/profit after impairment and significant items	(1,666)	405	(1,261)	2,626	1,365
Finance costs	(95)	(4,570)	(4,665)	(9)	(4,674)
Other finance costs	–	(182)	(182)	–	(182)
(Loss)/profit before tax	(1,761)	(4,347)	(6,108)	2,617	(3,491)
Income tax credit/(expense)	–	27	27	–	27
(Loss)/profit after tax as per comprehensive statement of income	(1,761)	(4,320)	(6,081)	2,617	(3,464)

Geographical segments

The Group earns revenue from countries outside the United Kingdom, as shown below:

12 months ended 31 March 2022	Cake Decoration £'000s	Discontinued Operations £'000s
UK	26,992	1,275
Europe	5,722	–
USA	6,892	–
Rest of World	825	–
Total	40,431	1,275

The Group has two customers which constitute over 10% of revenue: one providing 21% of revenue, and the other 13%.

12 months ended 31 March 2021	Cake Decoration £'000s	Discontinued Operations £'000s
UK	25,795	19,788
Europe	4,465	–
USA	6,191	–
Rest of World	841	–
Total	37,292	19,788

5. Segment reporting continued

The Group has two customers which constitute over 10% of revenue: one providing 17% of revenue, and the other 10%.

Reconciliation of operating (loss)/profit to underlying adjusted EBITDA to 31 March 2022	Cake Decoration £'000s	Head Office and non-trading subsidiaries £'000s	Continuing Operations £'000s	Discontinued Operations £'000s	Total Group £'000s
Operating loss	(455)	(16,634)	(17,089)	(330)	(17,419)
Significant items	254	56	310	229	539
Impairment charge	–	16,103	16,103	–	16,103
Depreciation	1,209	117	1,326	–	1,326
Amortisation	9	–	9	–	9
Underlying adjusted EBITDA	1,017	(358)	659	(101)	558

Reconciliation of operating (loss)/profit to underlying adjusted EBITDA to 31 March 2021	Cake Decoration £'000s	Head Office and non-trading subsidiaries £'000s	Continuing Operations £'000s	Discontinued Operations £'000s	Total Group £'000s
Operating (loss)/profit	(1,666)	405	(1,261)	2,626	1,365
Significant items	763	(966)	(203)	169	(34)
Depreciation	1,614	25	1,639	796	2,435
Amortisation	87	(35)	52	–	52
Underlying adjusted EBITDA	798	(571)	227	3,591	3,818

31 March 2022	Cake Decoration £'000s	Head Office and non-trading subsidiaries £'000s	Continuing Operations £'000s	Discontinued Operations £'000s	Total Group £'000s
Segment assets	36,017	4,623	40,640	–	40,640
Segment liabilities	10,606	24,924	35,530	–	35,530
Net operating assets / (liabilities)	25,411	(20,301)	5,110	–	5,110
Non-current asset additions	844	–	844	–	844
Depreciation	(1,209)	(117)	(1,326)	–	(1,326)
Amortisation	(9)	–	(9)	–	(9)

31 March 2021	Cake Decoration £'000s	Head Office and non-trading subsidiaries £'000s	Continuing Operations £'000s	Discontinued Operations £'000s	Total Group £'000s
Segment assets	52,180	3,355	55,535	19,009	74,544
Segment liabilities	11,305	55,449	66,754	4,442	71,196
Net operating assets / (liabilities)	40,875	(52,094)	(11,219)	14,567	3,348
Non-current asset additions	444	–	444	185	629
Depreciation	(1,614)	(25)	(1,639)	(796)	(2,435)
Amortisation	(87)	35	(52)	–	(52)

In line with the Group strategy of allowing each business to understand its true cost base as a stand-alone business, during the 12 months ended 31 March 2022, Head Office costs of £1.2 million (2021: £0.8m) have been re-allocated to the Cake Decoration division.

Notes to the Financial Statements (continued)

Year ended 31 March 2022

6. Significant items

	12 months ended 31 March 2022 £'000s	12 months ended 31 March 2021 £'000s
Costs relating to disposal of Brighter Foods	–	(269)
Professional fees in relation to refinancing costs	(62)	(38)
Movement in provisions relating to the non-controlling interest put option	–	1,302
Professional fees in relation to Liverpool factory/Wavertree closure	(90)	(113)
Closure of Renshaw US warehouse	(15)	(171)
Management restructuring	(143)	(508)
Significant items – Continuing business	(310)	203
Continuing business	(310)	203
Discontinued business	(229)	(169)
Total significant items	(539)	34

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.

The year to 31 March 2022 had the following significant costs:

1. Professional fees in relation to the refinancing of the Investor Loan Notes and CLNs.
2. Professional fees in relation to the closure of the Wavertree property and relocation to Crown Street Liverpool.
3. Professional fees in relation to the closure of the Renshaw US warehouse.
4. Redundancy costs associated with the restructuring of the Cake Decoration business.

The year to 31 March 2021 had the following significant costs:

1. The legal and due diligence costs involved in preparing the Brighter Food business for disposal.
2. The legal costs associated with including Brighter Foods in the CID facility with ABL Leumi.
3. Project management costs for projects running in the Crown Street factory.
4. Costs associated with closing the Renshaw US warehouse, the lease terminating in July 2021, with stockholding relocated to Crown Street Liverpool.
5. Redundancy costs of the restructuring plan started in FY20.
6. Brighter Foods incurred costs in relation to a proposed sale, as the disposal has occurred, Brighter Foods is now shown as a discontinued operation.

7. Auditor's remuneration

	12 months ended 31 March 2022 £'000s	12 months ended 31 March 2021 £'000s
Fees payable to the Company's auditor for the audit of the Group's annual accounts	(190)	(215)
Fees payable to the Company's auditor for other services:		
Audit related assurance services	(27)	(27)
Tax compliance services	(18)	(25)
Tax advisory services	(1)	(1)
Other assurance services	(7)	(6)
Total fees paid to auditor	(243)	(274)

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 plc, and its subsidiaries, as follows:

	12 months ended 31 March 2022 £'000s	12 months ended 31 March 2021 £'000s
Annual Accounts audit fee apportioned by division		
Real Good Food plc	(100)	(105)
Brighter Foods Ltd	–	(20)
J F Renshaw Ltd	(70)	(70)
Rainbow Dust Colours Ltd	(20)	(20)
	(190)	(215)

8. Operating loss

Operating loss for continuing operations

	Notes	12 months ended 31 March 2022 £'000s	12 months ended 31 March 2021 £'000s
External Sales		40,431	37,292
Staff Costs	12	(11,696)	(12,276)
Inventories:			
– cost of inventories as an expense (included in cost of sales)		(18,577)	(16,294)
Depreciation of property, plant, and equipment	5, 18	(1,326)	(1,639)
Amortisation of intangible assets	5, 17	(9)	(52)
Significant items	6	(310)	203
Impairment charges	16	(16,103)	–
Research and development expenditure		(646)	(626)
Impairment of trade receivables	22	(53)	(230)
Foreign exchange gains/(losses)		3	(308)
Other net operating expenses		(8,803)	(7,523)
Total		(57,520)	(38,553)
Operating loss		(17,089)	(1,261)

9. Finance costs

	12 months ended 31 March 2022 £'000s	12 months ended 31 March 2021 £'000s
Interest on bank loans, overdrafts, and investor loans	(1,896)	(4,600)
Interest on lease liabilities	(12)	(26)
Interest on non-controlling interest put option	–	43
Finance cost on substantial modification of convertible loan notes	17	(91)
	(1,891)	(4,674)
Continuing business	(1,891)	(4,665)
Discontinued business	–	(9)

Notes to the Financial Statements (continued)

Year ended 31 March 2022

10. Other finance (income)/costs

	12 months ended 31 March 2022 £'000s	12 months ended 31 March 2021 £'000s
Interest on pension scheme liabilities (note 32)	(429)	(465)
Interest on pension scheme assets (note 32)	431	312
Interest on effect of asset ceiling/IFRIC 14	–	(29)
	2	(182)

11. Directors' remuneration

	12 months ended 31 March 2022 £'000s	12 months ended 31 March 2021 £'000s
Directors' salaries, benefits, and fees	(650)	(482)
	(650)	(482)

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

	Fees/Salaries inc. Er's NIC £'000s	Taxable Benefits £'000s	Bonus £'000s	Pension Contributions £'000s	12 months ended 31 March 2022 £'000s	12 months ended 31 March 2021 £'000s
M J Holt	175	–	106	–	281	160
J M d'Unienville	25	–	–	–	25	25
M Keeling	178	10	62	–	250	203
J A Mackenzie	25	–	–	–	25	25
A Ridgwell	27	–	–	–	27	27
G Lumsden	42	–	–	–	42	42
	472	10	168	–	650	482

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.

M Keeling's salary above represents 100%, however 50% of the salary costs are recharged from J F Renshaw to Group.

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 31.

The bonus paid to M J Holt relates to the sale of Brighter Foods Limited and was fully funded by the Loan Note Holders via a debt waiver.

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

11. Directors' remuneration continued

The current base annual salaries and fees paid to the Directors are as follows:

	Base Salary £'000s
M J Holt	135
J M d'Unienville	25
J A MacKenzie	25
A Ridgwell	25
G Lumsden	38
M Keeling	144
	392

There were no options for directors at 31 March 2022 or 31 March 2021.

No new options were granted to Directors during the year (2021: 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 2022 was 2.75p and the range during the year was 1.55p to 3.45p.

No Director exercised share options during the year.

During the period, no director had retirement benefits, (2021: one).

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 2022 Group	31 March 2022 Company	31 March 2021 Group	31 March 2021 Company
Continuing operations				
Production	248	–	258	–
Selling and distribution	43	–	40	–
Directors and administrative	27	4	30	5
	318	4	328	5
Discontinued operations				
Production	170	–	170	–
Directors and administrative	46	–	46	–
	216	–	216	–
Total no. of staff	534	4	544	5

The aggregate payroll costs were as follows:

	31 March 2022 Group £'000s	31 March 2022 Company £'000s	31 March 2021 Group £'000s	31 March 2021 Company £'000s
Continuing operations				
Wages, salaries, and fees	9,989	439	10,575	338
Social security costs	1,056	67	1,066	44
Other pension costs	651	5	635	20
	11,696	511	12,276	402
Discontinued operations				
Wages, salaries, and fees	388	–	4,473	–
Social security costs	41	–	379	–
Other pension costs	8	–	115	–
	437	–	4,967	–
Total payroll costs	12,133	511	17,243	402

Notes to the Financial Statements (continued)

Year ended 31 March 2022

12. Staff numbers and costs continued

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Group, other than those already listed in the Directors remuneration in note 11.

	31 March 2022 Group £'000s	31 March 2022 Company £'000s	31 March 2021 Group £'000s	31 March 2021 Company £'000s
Wages, salaries, and fees	256	–	484	–
Social security costs	35	–	67	–
Other pension costs	26	–	33	–
Total payroll costs	317	–	584	–

The cash collateral figure for the Group is £0.05 million (FY21: £0.2m). This has been provided to Lloyds Bank plc as security for insurance claims of the Group. This amount is not included in the cash flow.

13. Notes supporting the cash flow statement

Group

	Non-current Loans and Borrowings £'000s (Note 23)	Current Loans and Borrowings £'000s (Note 23)	Total £'000s
Real Good Food plc (Group)			
At 31 March 2020	43,059	2,717	45,776
Cash Flows	(37)	(923)	(960)
Non-cash flows			
– Interest accruing on loans	4,376	–	4,376
– Finance loss on change of terms for convertible loan notes	91	–	91
Loans and borrowings classified as non-current at March 2020 becoming current before March 2021	(865)	865	–
At 31 March 2021	46,624	2,659	49,283
Cash Flows	(23,100)	608	(22,492)
Non-cash flows			
– Interest accruing on loans	1,760	–	1,760
– Waiver of shareholder loans	(540)	–	(540)
Loans and borrowings classified as non-current at March 2021 becoming current before March 2022	(451)	451	–
At 31 March 2022	24,293	3,718	28,011

13. Notes supporting the cash flow statement continued

Net Debt

Net debt is a key performance indicator for the Group. It is defined as short term and long-term borrowings less cash. See table below:

	Note	31 March 2022 Group £'000s	31 March 2021 Group £'000s
Short term borrowings	23	(3,718)	(2,659)
Short term lease liabilities	23	(48)	(93)
Long term borrowings	23	(24,293)	(46,624)
Long term lease liabilities	23	(155)	–
Cash		2,734	622
Total Net Debt		(25,480)	(48,754)

Group

	Net cash and current borrowings £'000s	Non-current borrowings £'000s	Net debt £'000s
At 1 April 2020	1,744	43,626	45,370
Cash flow	386	(1,748)	(1,362)
Other non-cash movements	–	4,746	4,746
At 31 March 2021	2,130	46,624	48,754
Cash flow	(1,617)	(23,100)	(24,717)
Other non-cash movements	519	924	1,443
At 31 March 2022	1,032	24,448	25,480

Notes to the Financial Statements (continued)

Year ended 31 March 2022

14. Taxation

Group

	31 March 2022 £'000s	31 March 2021 £'000s
Current tax		
UK current tax on loss of the period	–	–
UK current tax on significant items	–	–
Adjustments to tax in respect of prior years	–	–
Total current tax	–	–
Origination and reversal of timing differences	2,384	27
Adjustments in respect of prior years	–	–
Total deferred tax	2,384	27
Tax – continuing operations	2,384	27
Tax – discontinued operations	–	–
Total tax	2,384	27

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% (2021: 19%). The differences are explained below:

	31 March 2022 £'000s	31 March 2021 £'000s
Tax reconciliation		
Loss per accounts before taxation – continuing operations	(18,978)	(6,108)
Profit per accounts before taxation – discontinued operations	19,986	2,617
Total profit/(loss) before taxation	1,008	(3,491)
Tax on profit/(loss) on ordinary activities at standard corporation tax rate of 19%	191	663
Expenses not deductible for tax purposes	3,279	(499)
Movement in deferred tax in the year, including the effect of rate changes	(1,086)	(137)
Adjustments to tax in respect of prior years	–	–
Total tax	2,384	27
Tax on continuing operations	2,384	27
Tax on discontinued operations	–	–
Tax charge for the period	2,384	27

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

Factors that may affect future tax charges

An increase in the main corporation tax rate to 25% from 1 April 2023, from the previously enacted 19% was announced at the budget on 3 March 2021, and subsequently enacted on 24 May 2021. The deferred tax balance at 31 March 2022 has been calculated based on the rate of 25% (2021: 19%).

15. Earnings per share

Basic earnings per share

Basic earnings per share is calculated on the basis of dividing the 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 2022 Continuing Operations	12 months ended 31 March 2022 Discontinued Operations	12 months ended 31 March 2021 Continuing Operations	12 months ended 31 March 2021 Discontinued Operations
(Loss)/profit after tax attributable to ordinary shareholders (£'000s)	(21,362)	19,986	(6,473)	2,617
Weighted average number of shares in issue for basic EPS ('000s)	99,564	99,564	99,564	99,564
Employee share options ('000s)	–	–	340	340
Convertible loan notes ('000s)	220,980	220,980	220,980	220,980
Weighted average number of shares in issue for diluted EPS ('000s)	320,544	320,544	320,884	320,884
Basic (loss)/earnings per share	(21.46)p	20.07p	(6.50)p	2.63p

The total loss per share for 2022 is (1.39)p for continuing and discontinued operations (2021 continuing and discontinued loss per share: (3.87)p).

Diluted earnings per share

The discontinued operations in the period can be diluted. The impact of this is a diluted earnings per share of 6.23p (2021 0.82p) for discontinued operations. If all of the share options had been exercised before the period end, the earnings per share would then have been a loss per share of (21.46)p on the continuing operations and earnings of 6.23p on the discontinued operations. The weighted average number of shares in issue for the period was 99,564,430 and there are no options outstanding. There were also 8,806,571 convertible loan notes outstanding, of which the weighted average number of shares was 220,979,796. Therefore, the weighted average number of dilutive potential ordinary shares is 320,544,226.

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
Cost		
At 1 April 2021		32,722
Impairment		(16,103)
At 31 March 2022		16,619
	31 March 2022 £'000s	31 March 2021 £'000s
Cake Decoration	16,619	32,722

Notes to the Financial Statements (continued)

Year ended 31 March 2022

16. Goodwill continued

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 cash flows 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.

Long-term growth rate assumptions:

For the purposes of impairment testing, the cash flows are extrapolated over 5 years with a terminal value applied to the fifth year. The terminal value is calculated using the fifth year forecasted EBITDA (adjusted) performance and applying a 2% growth rate.

Discount rate assumptions:

The discount rate applied to the cash flows is 10% (2021: 10%). This rate is in line with the Company's actual weighted average cost of capital of 9.67% which takes account of the increased risk of being listed on AIM rather than the main market. It is representative of businesses operating within the food sector.

Impairment charge:

The impairment review resulted in an impairment of the goodwill held for Cake Decoration of £16.1 million (2021: nil). Cake Decoration is a core division for the Group and is currently in turnaround. The investments made in manufacturing capability in recent years have not yet started to deliver the returns that could be expected, for example, and the Board believes that the current valuation, reflected here, necessarily, and materially underplays the potential value of this division. Plans to improve the strategic positioning, service delivery and commercial performance of this business are also in progress.

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 10% to 10.5% would cause a further impairment of £1.6 million on the carrying value of goodwill on Cake Decoration.
- A reduction of 0.5% to the growth rate from 2.0% to 1.5% would cause a further impairment of £1.0 million on the carrying value of goodwill on Cake Decoration.

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

	Book value of cash generating unit £'000s	Estimated recoverable amount/value in use £'000s
Cake Decoration	25,249	36,547

17. Other intangible assets

	Customer Relationships £'000s	Computer Software £'000s	Development Costs £'000s	Group £'000s	Company £'000s
Cost					
At 1 April 2021 and 31 March 2022	4,170	332	111	4,613	296
Amortisation					
At 1 April 2021	4,170	326	108	4,604	296
Charge	–	6	3	9	–
At 31 March 2022	4,170	332	111	4,613	296
Net Book Value at 31 March 2022	–	–	–	–	–

Cost					
At 31 March 2021 and 1 April 2022	4,170	332	111	4,613	296
Amortisation					
At 1 April 2020	4,170	285	97	4,552	278
Charge	–	41	11	52	18
At 31 March 2021	4,170	326	108	4,604	296
Net Book Value at 31 March 2021	–	6	3	9	–

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 2022 are at £nil net book value (2021: nil).

18. Property, plant and equipment

Group

	Land and Buildings £'000s	Plant and Equipment £'000s	Total £'000s
Cost			
At 1 April 2021	3,201	17,148	20,349
Additions	–	844	844
At 31 March 2022	3,201	17,992	21,193
Depreciation			
At 1 April 2021	1,308	10,493	11,801
Charge	59	1,267	1,326
Disposals	–	–	–
At 31 March 2022	1,367	11,760	13,127
Net Book Value at 31 March 2022	1,834	6,232	8,066

Notes to the Financial Statements (continued)

Year ended 31 March 2022

18. Property, plant and equipment continued

	Land and Buildings £'000s	Plant and Equipment £'000s	Total £'000s
Cost			
At 1 April 2020	4,872	23,302	28,174
Reclassified to non-current assets discontinued operations	(944)	(6,532)	(7,476)
Reclassified to non-current assets discontinued operations IFRS16	(771)	–	(771)
Additions	44	585	629
Disposals	–	(207)	(207)
At 31 March 2021	3,201	17,148	20,349
Depreciation			
At 1 April 2020	1,177	10,798	11,975
Reclassified to non-current assets discontinued operations	(130)	(2,075)	(2,205)
Reclassified to non-current assets discontinued operations IFRS16	(208)	–	(208)
Charge	469	1,966	2,435
Disposals	–	(196)	(196)
At 31 March 2021	1,308	10,493	11,801
Net Book Value at 31 March 2021	1,893	6,655	8,548

Right of use assets

From 1 April 2019, the Group has adopted IFRS 16 Leases. Right of use assets recognised upon adoption of the standard are reflected in the underlying asset classes of property, plant and equipment. The initial adjustments to cost are reflected in the table above as IFRS 16 adjustments. Set out below are the carrying amounts of right of use assets recognised and the movements during the year:

	Land and Buildings £'000s	Plant and Equipment £'000s	Total £'000s
Cost			
At 1 April 2021	519	233	752
Additions	–	211	211
At 31 March 2022	519	444	963
Depreciation			
At 1 April 2021	459	232	691
Charge	20	73	93
At 31 March 2022	479	305	784
Net Book Value at 31 March 2022	40	139	179

Capital commitments in relation to property, plant and equipment are disclosed in note 30. Details of assets which are secured against borrowings are detailed in note 23.

18. Property, plant and equipment continued

Company

	Plant and Equipment £'000s	Total £'000s
Cost		
At 1 April 2021	299	299
At 31 March 2022	299	299
Depreciation		
At 1 April 2021	181	181
Charge	24	24
At 31 March 2022	205	205
Net Book Value at 31 March 2022	94	94
Cost		
At 1 April 2020	299	299
At 31 March 2021	299	299
Depreciation		
At 1 April 2020	156	156
Charge	25	25
At 31 March 2021	181	181
Net Book Value at 31 March 2021	118	118

The company does not have any right of use assets.

19. Investments

Company

Investments in shares of subsidiary undertakings:

	N Brown Foods Limited £'000s	Real Good Food Ingredients Limited £'000s	Renshaw Europe NV £'000s	Total Investments £'000s
At 31 March 2021	53,900	–	770	54,670
Impairment	(45,690)	–	–	(45,690)
At 31 March 2022	8,210	–	770	8,980

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.

Notes to the Financial Statements (continued)

Year ended 31 March 2022

19. Investments continued

A full list of subsidiary undertakings (showing registered address and shares held) as at 31 March 2022 is disclosed below:

	Principal Activities	Description and Number of Shares Held	Proportion of Nominal Value of Shares Held
RGF Devizes Ltd*	Dormant	4,052,659 Ordinary £1	100%
Eurofoods Ltd*	Dormant	260,000 Ordinary £1	100%
		50,000 Preference £1	100%
N Brown Foods Ltd*	Holding Company	28,248,096 Ordinary 50p	100%
Renshaw US Incorporated*	Cake Decoration Supplier	200 Ordinary \$1	100%
JF Renshaw Ltd	Cake Decoration Supplier	15,685,164 Ordinary £1	100%
RGFC Dust Ltd*	Holding Company	1 Ordinary £1	100%
Rainbow Dust Colours Ltd	Cake Decoration Supplier	500 Ordinary £1	100%
Real Good Food Ingredients Ltd*	Food Ingredients Supplier	2,500,000 Ordinary £1	100%
Whitworths Sugars Ltd	Dormant	2 Ordinary £1	100%
Renshaw Europe NV*	Cake Decoration Supplier	461,500 Ordinary €1	100%

* Held directly by Real Good Food plc.

All entities have their registered office at 229 Crown Street, Liverpool, L8 7RF, except for the following: Renshaw Europe NV registered office at 1348 Ottignies-Louvain-la-Neuve, Chemin du Cyclotron 6, Bruxelles.

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

20. Deferred taxation liability/(asset)

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

	31 March 2022 Group £'000s	31 March 2022 Company £'000s	31 March 2021 Group £'000s	31 March 2021 Company £'000s
Opening position	(1,210)	(1,426)	(1,285)	(1,508)
Charge/(credit) to income statement	2,384	2,327	(27)	(20)
(Credit)/charge to other comprehensive income – defined benefit pension scheme movement	(527)	(527)	102	102
Charge to equity – deferred tax on share-based payments	–	–	–	–
Closing position	647	374	(1,210)	(1,426)
Shown as follows:				
Liabilities	647	374	216	–
Assets	–	–	(1,426)	(1,426)
	647	374	(1,210)	(1,426)

Group

Deferred tax assets

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

	Pension Scheme £'000s	Total £'000s
At 31 March 2021	(1,426)	(1,426)
Charge to income statement	1,953	1,953
(Credit) to other comprehensive income	(527)	(527)
At 31 March 2022	–	–
Within 12 months	–	–
Greater than 12 months	–	–

20. Deferred taxation liability/(asset) continued

Deferred tax liabilities

	Pension Scheme £'000s	Tangible Assets £'000s	Total £'000s
At 31 March 2021	–	216	216
Charge to income statement	374	57	431
Charge to other comprehensive income	–	–	–
At 31 March 2022	374	273	647

There were £29.9 million of unused tax losses (2021: £20.0 million) on which deferred tax of £5.7 million (2021: £3.8 million) is not recognised owing 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:

	Pension Scheme £'000s	Total £'000s
At 31 March 2021	(1,426)	(1,426)
Charge to income statement	2,327	2,327
Credit to other comprehensive income	(527)	(527)
At 31 March 2022	374	374
Within 12 months	–	–
Greater than 12 months	374	374

21. Inventories

	31 March 2022 Group £'000s	31 March 2022 Company £'000s	31 March 2021 Group £'000s	31 March 2021 Company £'000s
Materials	1,589	–	1,225	–
Work in Progress	19	–	112	–
Finished Goods	2,416	–	2,260	–
	4,024	–	3,597	–
Continuing Business	4,024	–	3,597	–
Discontinued Business	–	–	2,296	–

Inventories totalling £4,024k (2021: £5,893k) 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. The company does not hold inventory.

Notes to the Financial Statements (continued)

Year ended 31 March 2022

22. Trade and other receivables

	31 March 2022 Group £'000s	31 March 2022 Company £'000s	31 March 2021 Group £'000s	31 March 2021 Company £'000s
Current trade and other receivables				
Trade receivables	5,553	18	5,941	–
Less: provision for impairment of receivables	(53)	–	(230)	–
Net trade receivables	5,500	18	5,711	–
Other receivables	502	13	762	120
Amounts owed by Group undertakings	–	8,590	–	7,620
Deferred consideration for disposals	–	–	50	50
Prepayments	570	47	725	65
Total	6,572	8,668	7,248	7,855
Amount due within 12 months	6,572	78	7,248	691
Amount due after 12 months	–	8,590	–	7,164
Total	6,572	8,668	7,248	7,855

At 31 March 2022, the Group had an outstanding balance on the revolving credit facility of £3,267k (2021: £1,794k) for which the trade receivables were pledged as security. The facility is available in relation to J F Renshaw and Rainbow Dust Colours GBP, USD, and EUR receivables. Full details are shown under Note 23.

Provision for impairment of receivables

	31 March 2022 Group £'000s	31 March 2022 Company £'000s	31 March 2021 Group £'000s	31 March 2021 Company £'000s
At 31 March 2021	(230)	–	(192)	–
Credit/(charge) for period	177	–	(38)	–
At 31 March 2022	(53)	–	(230)	–

The Group applies the IFRS 9 simplified approach to calculating its expected credit loss, using a lifetime expected loss provision for trade receivables. To measure expected credit loss, trade receivables are grouped based upon their ageing. The expected losses are based on the Group's historical credit losses and are then adjusted by 50% to account for the current economic climate.

At 31 March 2022, the lifetime expected credit loss for trade receivables in the Group is as follows:

	Less than 30 days old £'000s	30-60 days old £'000s	60-90 days old £'000s	90-365 days old £'000s	Over 365 days old £'000s	Total £'000s
Expected loss rate	–	–	–	10%	2.5%	
Gross carrying amount	5,014	236	91	130	82	5,553
Loss provision	–	–	–	32	21	53

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 creation and release of the provision for impaired receivables has been included in the income statement within administration costs. The Group recognised a release of £177k (2021: charge of £38k) of its trade receivables during the period, to reflect debts paid during the year.

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. This risk is mitigated by the Group's credit insurance policies.

22. Trade and other receivables continued

Trade receivables of £0.5 million were past due but not impaired. The ageing analysis of these receivables is as follows:

	31 March 2022 Group £'000s	31 March 2021 Group £'000s
Up to 30 days past due	236	582
One to three months past due	91	204
Over three months past due	158	323
	485	1,109

23. Borrowings and capital management

	31 March 2022 Group £'000s	31 March 2022 Company £'000s	31 March 2021 Group £'000s	31 March 2021 Company £'000s
Secured borrowings at amortised cost				
Bank term loans	1,185	–	2,050	–
Revolving credit facilities	3,267	–	1,794	–
Leases	203	–	93	–
Investor loans*	7,256	7,256	30,240	30,240
Convertible loan notes**	16,303	16,303	15,199	15,199
	28,214	23,559	49,376	45,439
Borrowings due for settlement within 12 months	3,718	–	2,659	–
Lease liabilities due for settlement within 12 months	48	–	93	–
Borrowings due for settlement after 12 months	24,293	23,559	46,624	45,439
Lease liabilities due for settlement after 12 months	155	–	–	–
Total	28,214	23,559	49,376	45,439

* The investor loans shown consists of £4.7 million principal amount, £1.8 million accrued interest up to 31 March 2022 and redemption premiums of £0.7 million.

** Convertible loan notes shown at 31 March 2022 consist of £8.8 million investment (2021: £8.8 million), £7.5 million accrued interest (2021: £6.3 million), and £0.02k of transaction costs (2021: nil) being spread over the remaining life of the liability and a finance cost of £0.7m and a fair value adjustment of (£0.7m), resulting from a substantial modification to the Convertible Loan Note terms requiring de-recognition of the existing loans and recognition of new loans.

All existing shareholder loans are due to be paid in May 2023, however the Loan note holders have pledged to extend them to May 2024, however the documentation is not yet in place.

Convertible loan notes

In May 2018, the Company secured further funding from each of its major shareholders totalling £8.8 million. NB Holdings Ltd and Omnicane Investors Ltd each providing £3.4 million, and funds managed by Downing LLP provided £1.9 million. This instrument has since, with shareholder approval, been replaced with convertible loan notes ("CLN's") of £8.8 million with a conversion price of 5 pence. The loan is repayable in 3 years from the date of issue or can be converted at any time into shares at the holder's option. The loan note holders agreed to amend the repayment date of the loans to May 2024, however the documentation is not yet signed.

The instrument accrues interest at a rate of 12 percent per annum accruing daily and will mature and be due for repayment in full on 19 May 2023, unless they are redeemed before that date. The loan note holders have pledged to amend the repayment date to the 19 May 2024; however, the documentation is not yet signed. On that date, unless the convertible loan notes are converted into ordinary shares on the conversion date, a redemption premium fee will be payable. The redemption fee, which stopped accruing from 1 January 2021, will be an amount which, when added to the interest accrued on the relevant notes, provides a total return equal to the amount which would have accrued in respect of such notes from the date of the convertible loan note instrument until and including the date the notes are redeemed in full had the interest rate been 12 per cent per annum.

A host loan at amortised cost and an embedded derivative liability, being measured at fair value with changes in value being recorded in profit or loss, have been recognised. At 31 March 2022, the derivative liability was valued at £0.1k (2021: £17k).

The convertible loan notes shown consist of a host loan at amortised cost of £8.8 million, £7.5 million of finance costs and £0.7 million of costs and a fair value adjustment of (£0.7m) resulting from substantial modification to the convertible loan notes up to 31 March 2022.

Notes to the Financial Statements (continued)

Year ended 31 March 2022

23. Borrowings and capital management continued

Features of the Group's borrowings are as follows:

The Group's financial instruments comprised cash, leases, a revolving credit facility, 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 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.

During the year ended 31 March 2022, the Group continued with the borrowing facilities in place and secured loans from investors. As at 31 March 2022, the borrowings comprised:

- revolving credit facility of £5.45 million with Leumi ABL Limited on a revolving basis with a term of 60 months. This facility is secured against the debtors of JF Renshaw Limited and Rainbow Dust Colours Limited with an interest rate of 2.25% above Sterling Overnight Index Average for Sterling Advances. Because the group retains the risks and rewards of ownership of the underlying debts, these continue to be recognised in these financial statements.
- The Group secured facilities against specific plant and machinery with Leumi ABL Limited £2.1 million for 36 months ending August 2022. The facilities interest payable is 2.75% above Sterling Overnight Index Average for Sterling Advances.
- The Group secured a £1.3m term loan facility with the term being 60 months.

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

The loans at 31 March 2022 were as follows:

Date	Amount	Method of Funding	Major Shareholder(s)
May 2018	£8.8m	Secured convertible loan notes	NB Holdings Ltd (£3.4m), Omnicane Investors Ltd (£3.4m), Funds managed by Downing LLP (2.0m)
March 2018	£2.3m	Secured loan notes	NB Holdings Ltd (£0.9m), Omnicane Investors Ltd (£0.9m), Funds managed by Downing LLP (£0.6m)
January 2018	£0.3m	Secured loan notes	Funds managed by Downing LLP (£0.3m)
September 2017	£0.8m	Secured loan notes	Funds managed by Downing LLP (£0.8m)
June 2017	£1.3m	Secured loan notes	Funds managed by Downing LLP (£1.3m)
Total	£13.5m		

At 31 March 2022, Leumi ABL Limited had 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 had a guarantee over the Wavertree property.

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.

23. Borrowings and capital management continued

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
2022						
Trade and other payables	4,904	1,044	427	195	–	6,570
Investor loans	–	–	–	4,704	–	4,704
Convertible loan notes	–	–	–	8,800	–	8,800
Bank term loans	72	216	163	734	–	1,185
Revolving credit facilities	–	–	3,267	–	–	3,267
Leases	4	8	36	155	–	203
	4,980	1,268	3,893	14,588	–	24,729
Interest	–	–	–	9,349	–	9,349
Redemption premiums	–	–	–	706	–	706
Total	4,980	1,268	3,893	24,643	–	34,784
	Less than 1 month £'000s	1–3 months £'000s	3 months to 1 year £'000s	1–5 years £'000s	5+ years £'000s	Total £'000s
2021						
Trade and other payables	7,138	893	56	–	–	8,087
Investor loans	–	–	–	20,562	–	20,562
Convertible loan notes	–	–	–	8,807	–	8,807
Bank term loans	72	144	649	1,185	–	2,050
Revolving credit facilities	–	–	1,794	–	–	1,794
Leases	8	15	70	–	–	93
NCI put option liability	1,553	–	–	–	–	1,553
	8,771	1,052	2,569	30,554	–	42,946
Interest	–	–	–	13,029	–	13,029
Redemption premiums	–	–	–	3,084	–	3,084
Total	8,771	1,052	2,569	46,667	–	59,059

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

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 \$ assets to \$ liabilities, a 10% strengthening of the US dollar would result in an increase in pre-tax profits of £616k. A 10% weakening of the US dollar would result in a decrease of pre-tax profits of £504k.
- With an excess of € liabilities to € assets a 10% strengthening of the Euro would result in a decrease in pre-tax profits of £686k. A 10% weakening of the Euro would result in an increase of pre-tax profits of £561k.

Interest rate risks:

The Group has an exposure to interest rate risk arising from borrowings based upon the Bank of England base rate. However, at the balance sheet date, the Group did not have any outstanding balance on these borrowing facilities, and so the impact of an increase in the applicable interest rates would, all other factors remaining unchanged, not have impacted profits.

Notes to the Financial Statements (continued)

Year ended 31 March 2022

24. Lease liabilities

Lease liabilities are classified based on the amounts that are expected to be settled within the next 12 months and after more than 12 months from the reporting date, as follows:

	Continuing Operations 31 March 2022 £'000s	Discontinued Operations* 31 March 2022 £'000s	31 March 2022 £'000s	Continuing Operations 31 March 2021 £'000s	Discontinued Operations* 31 March 2021 £'000s	31 March 2021 £'000s
Current lease liabilities	48	–	48	93	91	184
Non-current lease liabilities	155	–	155	–	456	456
	203	–	203	93	547	640

The maturity of lease liabilities as at 31 March 2022 is further analysed as set out below:

	Continuing Operations 31 March 2022 £'000s	Discontinued Operations* 31 March 2022 £'000s	31 March 2022 £'000s	Continuing Operations 31 March 2021 £'000s	Discontinued Operations* 31 March 2021 £'000s	31 March 2021 £'000s
Due in less than one year	48	–	48	93	91	184
Due between one to five years	155	–	155	–	257	257
Due in over five years	–	–	–	–	199	199
	203	–	203	93	547	640

* The lease liabilities relating to discontinued operations are shown as part of assets held for sale for Brighter Foods Limited in note 33.

Additions in the year to lease liabilities have been discounted using an average annual rate of 3.75% (2021: 4.41%), which corresponds to the rate at which the Group has borrowed against assets. Brought forward liabilities continue to be discounted at 4.41% in line with 2021. A rate of 10% were applied, then the charge to profit would be increased by £14k (2021: £49k).

The movements in the lease liability in the year are set out below:

	31 March 2022 Group £'000s	31 March 2021 Group £'000s
Lease liability at 1 April 2021	93	957
Lease additions	211	63
Leases terminated	–	(4)
Repayments of lease liabilities	(113)	(402)
Interest expense	12	26
Less assets classified as discontinued operations	–	(547)
Lease liability at 31 March 2022	203	93

The total cash outflow in respect of leases is equal to the repayments of lease liabilities.

The Group applies exemptions available under IFRS 16 in relation to leases for assets of a low-value, and short-term leases. These leases are not reflected in the measurement of lease liabilities. The future cash outflows to which the Group is exposed in respect of these leases and the expenses charged to the income statement are not considered material.

25. Trade and other payables

	31 March 2022 Group £'000s	31 March 2022 Company £'000s	31 March 2021 Group £'000s	31 March 2021 Company £'000s
Amount due within one year				
Trade payables	2,748	132	3,837	186
Other tax & social security	296	11	377	15
Accruals	3,036	189	3,400	479
Amounts owed to Group undertakings	–	51,465	–	20,154
Other payables	585	151	473	11
Total	6,665	51,948	8,087	20,845

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

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

26. 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 2022 Group £'000s	31 March 2022 Company £'000s	31 March 2021 Group £'000s	31 March 2021 Company £'000s
Loans and receivables at amortised cost				
Cash and cash equivalents	2,734	1,636	622	17
Cash collateral	50	50	215	215
Trade receivables	5,553	18	5,711	–
Other debtors	502	13	762	120
Deferred consideration	–	–	50	50
Amounts owed by Group undertakings	–	8,355	–	7,620
	8,839	10,072	7,360	8,022
Financial liabilities at amortised cost				
Trade payables	2,748	132	3,837	186
Accruals	3,036	189	3,400	479
Other payables	585	151	473	11
Bank term loans	1,185	–	2,050	–
Revolving Credit Facility	3,267	–	1,794	–
Lease assets	203	–	93	–
Investor loans	7,256	7,256	30,240	30,240
Convertible loan notes	16,303	16,303	15,199	15,199
Amounts owed to Group undertakings	–	51,465	–	20,154
	34,583	75,496	57,086	66,269
Financial liabilities at fair value through profit and loss				
NCI put option	–	–	1,553	–
Derivative liability – Convertible loan notes	–	–	17	17
	–	–	1,570	17
Total financial liabilities	34,583	75,496	58,656	66,286

The fair value of the embedded derivative liability as disclosed in the above table are classified as Level 3 in the fair value hierarchy. The fair value of the embedded derivative liability has been determined using a Monte-Carlo simulation. The significant inputs include volatility, risk-free rate, and the time period under analysis.

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. Capital is defined as the net assets of the Group, including cash.

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 Ltd, Omnicane Investors Ltd, and certain funds managed by Downing LLP, support the business, and have provided significant funding to the Group by way of loans (note 23).

Notes to the Financial Statements (continued)

Year ended 31 March 2022

27. Share capital

	Number of Shares 2022	Number of Shares 2021	31 March 2022 £'000s	31 March 2021 £'000s
Allotted, called up and fully paid equity share capital				
At the beginning of the year (1 April)	99,564,430	99,564,430	1,991	1,987
Issued in the year	–	–	–	4
At the end of the year (31 March)	99,564,430	99,564,430	1,991	1,991

The ordinary shares have a par value of £0.02. Ordinary shares carry the right to participate in dividends and each share entitles the holder to one vote on matters requiring shareholder approval.

There were no outstanding share options at the 31 March 2022.

28. 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 Limited put option and capital redemption of £540k in respect of shareholder loan waiver.

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 represented the 15.67% of Retained Earnings that were owned by the management of Brighter Foods Limited, rather than Real Good Food plc.

29. Equity-settled share option scheme

The Company had 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 2022 Number of Share Options	31 March 2022 Weighted Average Exercise Price (£)	31 March 2021 Number of Share Options	31 March 2021 Weighted Average Exercise Price (£)
Outstanding at the beginning of the period	4,060,835	0.26	4,060,835	0.26
Exercised during the year	–	–	–	–
Forfeited during the year	(33,333)	(0.45)	(33,333)	(0.45)
Outstanding at the end of the period*	–	–	–	–
Exercisable at the end of the period	–	–	33,333	(0.45)

* There are no outstanding options in 2022

No new options have been issued during this current period, and there are no plans for options to be granted. 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
Weighted average exercise price	£0.33
Weighted average share price	£0.30

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 £3k (2021: a credit of £200k). This is shown in administration expenses in the Company as the charge relates to employees of the Company.

30. Commitments

Capital commitments

	31 March 2022 £'000s	31 March 2021 £'000s
Commitments for the acquisition of property, plant, and equipment	407	74

31. Related party transactions

There have been no consultancy fees paid to entities in which Directors hold a beneficial interest.

Further to the disposal of Brighter Foods Limited on 11 May 2021 (a post-year end activity), each of NB. Ingredients Limited ("Napier Brown"), Omnicane International Investors Limited ("Omnicane"), and certain funds managed by Downing LLP ("Downing") (together the "Major Shareholders") each agreed to contribute £0.18 million towards the costs incurred by the Group in relation to the Disposal.

The total contribution of £0.54 million is by way of a waiver of certain of the outstanding loan notes held by each of the Major Shareholders (the "Loan Note Waivers") reducing the amount of loan notes outstanding to £22.0 million. This waiver has been agreed in respect of certain costs related to the Disposal. The £540,000 attributable to waiver is split between c.£0.35 million of capital, £0.1 million relating to a bonus paid to M J Holt, with the remainder being in respect of interest and redemption premium.

As Napier Brown (of which Anthony Ridgwell is a director) and Omnicane (of which Jacques D'Unienville is a director) are substantial shareholders of the Company and Judith MacKenzie, a director of the Company, is also a Partner of Downing, each of the Loan Note Waivers are deemed to be related party transactions pursuant to the AIM Rules for Companies. Maribeth Keeling, Mike Holt, and Gail Lumsden, the Independent Directors of the Company for this purpose, having consulted with the Company's Nominated Adviser, finnCap Ltd, consider the terms of the Loan Note Waivers to be fair and reasonable insofar as the Company's shareholders are concerned. All details of shareholder loans are shown in note 23.

Charges of Group services to related parties

Real Good Food plc charged its subsidiaries management fees for the year as follows:

	12 months ended 31 March 2022 £'000s	12 months ended 31 March 2021 £'000s
Brighter Foods Ltd	–	240
J F Renshaw Ltd	1,212	720
Rainbow Dust Colours Ltd	60	60
	1,272	1,020

JF Renshaw Ltd and Brighter Foods Ltd (up until disposal) were related parties because they were both subsidiaries of N Brown Foods Ltd, which is a 100% owned subsidiary of Real Good Food plc. Related party balances with 100% owned subsidiaries have not been disclosed.

Notes to the Financial Statements (continued)

Year ended 31 March 2022

32. Pension 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 and closed to future accrual with effect from 5 April 2004. The Defined Benefit scheme is a funded arrangement with assets held in a separate trustee-administered fund. Members of the Plan are entitled to retirement benefits based on their final salary at the date of leaving the Plan (or 5 April 2004 if earlier), and length of service.

An arrangement was previously agreed with the Trustees under which employer contributions to the scheme are £1 million per year from 1 August 2019. For the purposes of IAS 19 the data provided for the 31 March 2018 actuarial valuation, has been approximately updated to reflect defined benefit obligations on the accounting basis at 31 March 2022. This has resulted in a surplus in the Plan of £1,497k. The present value of the fair plan assets is in excess of the contribution's payable exceeds the net liability.

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

	31 March 2022 £'000s	31 March 2021 £'000s	31 March 2020 £'000s	31 March 2019 £'000s	31 March 2018 £'000s
Present value of defined benefit obligation	19,929	21,885	20,750	21,177	21,448
Fair value of Plan assets	(21,426)	(14,527)	(13,735)	(13,774)	(13,529)
(Surplus)/deficit in plan	(1,497)	7,358	7,015	7,403	7,919
Effect of asset ceiling/IFRIC14	–	147	921	–	–
Gross amount recognised	(1,497)	7,505	7,936	7,403	7,919
Deferred tax*	–	(1,426)	(1,508)	(1,258)	(1,094)
Net (asset)/liability	(1,497)	6,079	6,428	6,145	6,825

* Deferred tax rate 2022 at 25%; 2021 and 2020: 19%, and 2017, 2018 & 2019: 17%

32. Pension arrangements continued**Reconciliation of opening and closing balances of the present value of the defined benefit obligations**

	31 March 2022 £'000s	31 March 2021 £'000s
Defined benefit obligation at start of period	21,885	20,750
Interest cost	429	465
Actuarial losses / (gains)	(1,536)	1,698
Past service cost	–	–
Benefits paid	(849)	(1,028)
Defined benefit obligation at end of period	19,929	21,885

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

	31 March 2022 £'000s	31 March 2021 £'000s
Fair value of Plan assets at start of period	14,527	13,735
Interest income on Plan assets	431	312
Return on assets less interest income	(1,182)	788
Contributions paid by the Group	8,500	720
Benefits paid, death-in-service insurance premiums and expenses	(850)	(1,028)
Fair value of Plan assets at end of period	21,426	14,527
UK equities	–	2,408
Other investments	21,426	12,119
Total plan assets at end of period	21,426	14,527

The actual return on the Plan assets over the period ended 31 March 2022 was (£1,687k) (2021: £1,100k).

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

	31 March 2022 £'000s	31 March 2021 £'000s
Interest on liabilities	429	465
Interest on assets	(431)	(312)
Interest on effect of asset ceiling / IFRIC 14	–	29
Net interest cost/(gain)	(2)	182
Past service cost	–	–
Total cost	(2)	182

Statement of recognised income and expenses

	31 March 2022 £'000s	31 March 2021 £'000s
Actuarial gain/(loss) on the Plan assets	(1,182)	788
Actuarial gain/(loss) on the Plan liabilities arising from changes in demographic assumptions	199	17
Actuarial (loss)/gain on the Plan liabilities arising from changes in financial assumptions	1,620	(1,715)
Actuarial (loss)/gain experience	(283)	–
Change in the effect of the asset ceiling / IFRIC14	147	803
Total amount recognised in Statement of Other Comprehensive Income	501	(107)

Notes to the Financial Statements (continued)

Year ended 31 March 2022

32. Pension arrangements continued

Assets

	31 March 2022 £'000s	31 March 2021 £'000s	31 March 2020 £'000s
UK equity	–	2,408	2,210
Absolute return fund	4,113	1,412	1,522
Corporate Bonds	–	2,936	2,746
Gilts	3,427	2,769	3,112
Credit Funds	7,220	175	218
Sterling Liquidity Funds	1,822	–	–
Cash/Net current assets	223	–	–
Multi-Asset Funds	4,621	4,827	3,927
Total assets	21,426	14,527	13,735

The investment strategy for the Plan is controlled by the Trustees, in consultation with the Company. 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. Absolute return funds are invested in a diverse range of assets in order to achieve equity-like returns with reduced volatility. Alternative assets include infrastructure and derivatives.

Assumptions

	31 March 2022 £'000s	31 March 2021 £'000s	31 March 2020 £'000s	31 March 2019 £'000s
Inflation	3.80	3.40	2.70	3.30
Salary increases	–	–	–	–
Rate of discount	2.80	2.00	2.30	2.40
Allowance for pension in payment increases				
RPI max 5%	3.70	3.30	2.70	3.10
RPI min 3% max 5%	3.90	3.60	3.20	3.50
Allowance for revaluation of deferred pensions	3.30	2.70	2.20	2.30
Allowance for commutation of pension for cash at retirement	90% of max allowance	90% of max allowance	90% of max allowance	90% of max allowance

The obligations of the Plan have been calculated by projecting forwards the figures from the initial results of the latest valuation as at 31 March 2018 and then making appropriate adjustments for known experience and for differences in assumptions.

The mortality assumptions adopted at 31 March 2022 and 31 March 2021 imply the following life expectancies from age 65:

	31 March 2022	31 March 2021
Male retiring at age 65 in current year	21 years	21 years
Female retiring at age 65 in current year	23 years	23 years
Male retiring at age 65 in 20 years' time	22 years	22 years
Female retiring at age 65 in 20 years' time	25 years	25 years

The weighted-average duration of the defined benefit obligation at 31 March 2022 was 15 years (2021: 15 years).

32. Pension arrangements continued

Historic funding positions

The funding positions applicable at the start of each period are as follows:

	12 months ended 31 March 2022 £'000s	12 months ended 31 March 2021 £'000s	12 months ended 31 March 2020 £'000s	12 months ended 31 March 2019 £'000s	12 months ended 31 March 2018 £'000s
Fair value of assets	21,426	14,527	13,735	13,774	13,529
Defined benefit obligation	(19,929)	(21,885)	(20,750)	(21,177)	(21,448)
Effect of asset ceiling / IFRIC14	–	(147)	(921)	–	–
Asset/(Liability) in scheme	1,497	(7,505)	(7,936)	(7,403)	(7,919)
Experience adjustment on scheme assets	–	–	(168)	518	(232)
Experience adjustment on scheme liabilities	–	–	–	427	–

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: In order to counter asset volatility and changes in bond yields, 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 and consult with the Company on any changes. The Trustees' investment strategy is set out in the Statement of Investment Principles.

Funding positions: The Trustees are required to assess the funding position annually by means of a formal actuarial report which must be shared with the Company.

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:

	Reasonably Possible Change	Obligation Increase	Obligation Decrease
Discount Rate	(+/- 0.5%)	8%	7%
RPI Inflation	(+/- 0.5%)	3%	3%
Assumed Life expectancy	(+/-) 1 Year	5%	5%

Small changes to other assumptions, such as the allowance for commutation of pension for cash at retirement, and the proportion of members assumed to be married at retirement, do not have such a significant effect on the obligations of the Plan.

Notes to the Financial Statements (continued)

Year ended 31 March 2022

33. Assets held for sale

Following the sale of the trade and assets of Real Good Food Ingredients Ltd, the Group was left with an office building near Bristol, which was no longer required. The property has been advertised for sale with local estate agents since July 2018, and we hope to find a suitable buyer.

As such, the asset is classified as held for sale within the consolidated statement of financial position at 31 March 2022.

Following the restructure of the RGF Group Head Office, the property at Wavertree, Liverpool is no longer required, with remaining staff relocating to the Crown Street property. The property is currently advertised for sale. The asset is within the Head Office operating segment. An impairment has been made in the accounts of £70k on classification of the asset as held for sale, to reduce the carrying value to the amount at which the property is being marketed. The Wavertree site was sold on the 26 May 2022.

The assets classified as held for sale within the consolidated statement of financial position at 31 March 2022 were as follows:

	Real Good Food Plc	N Brown Foods Limited	Brighter Foods Limited	31 March 2022 £'000s	Real Good Food Plc	N Brown Foods Limited	Brighter Foods Limited	31 March 2021 £'000s
Goodwill	–	–	–	–	–	–	5,031	5,031
Plant and equipment	–	–	–	–	–	–	4,457	4,457
Property (land and buildings)	930	148	–	1,078	1,000	148	814	1,962
Right of use assets (IFRS16)	–	–	–	–	–	–	563	563
Property (land and buildings)	–	–	–	–	–	–	2,296	2,296
Property (land and buildings)	–	–	–	–	–	–	3,390	3,390
Cash	–	–	–	–	–	–	2,458	2,458
Total assets held for sale	930	148	–	1,078	1,000	148	19,009	20,157
Trade and other payables	–	–	–	–	–	–	3,598	3,598
Hire purchase	–	–	–	–	–	–	167	167
IFRS16 Lease liabilities	–	–	–	–	–	–	547	547
Deferred income	–	–	–	–	–	–	130	130
Total liabilities held for sale	–	–	–	–	–	–	4,442	4,442

34. Contingent liability

The Directors are not aware of any legal claims. The claim from the liquidators of Five Star Fish Limited (FSF) regarding a claim for repayment of an alleged £610k debt owed by RGF to FSH was finalised in FY21 at no cost to RGF plc.

35. Disposal of Brighter Foods Limited

On 11 May 2021, Brighter Foods Limited was sold to The Hut Group plc (THG) for a cash consideration of £43.0 million. RGF through its subsidiary NBF, had an interest of 84.334 percent of the issued share capital of Brighter Foods Limited with the balance owned by Brighter's managers. The Group received cash proceeds of £35.64 million. The statement of cash flows includes the following amounts in relation to discontinued operations; Operating activities £167k (2021 - £1,224k); Investing activities (£20k) (2021 - £234k); Financing activities £41k (2021 - (£156k)). The table below shows the profit on sale.

Profit on Sale

	31 March 2022 £'000s
Cash consideration received	35,732
Cash disposed of	(2,579)
Net cash inflow on disposal of discontinued operations	33,153
Net assets disposed of (other than cash):	
Property, plant and equipment	(5,766)
Inventories	(2,784)
Trade and other receivables	(1,520)
Trade and other payables	3,176
Other long term borrowing	338
	(6,556)
Goodwill	(5,031)
Disposal costs	(1,138)
Put option	(3,243)
Minority interest	3,131
Result for period until disposal	(330)
Profit on disposal of Brighter Foods Limited	19,986

36. Post-year end activities

- The property in Wavertree Liverpool that housed the Renshaw Academy, and the Sales and marketing teams was sold on the 26 May 2022 for £0.9 million.
- Following the sale of Wavertree, the registered office of RGF plc was changed to the Liverpool factory site, 229 Crown Street, Liverpool, L8 7RF.
- Maribeth Keeling resigned in April 2022 and left the Group on 30 September 2022.
- Anthony Ridgwell resigned from the Board on 22 August 2022.

Advisors and Company Information

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J M d'Unienville
J A Mackenzie
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