

Hook 2 Sisters Limited

**Directors' report and financial
statements**

Registered number 5969169

Year ended 31 July 2011

THURSDAY



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Contents

Directors' report	1
Statement of directors' responsibilities in respect of the directors' report and the financial statements	3
Independent auditor's report to the members of Hook 2 Sisters Limited	4
Profit and loss account	6
Balance sheet	7
Cash flow statement	8
Reconciliation of net cash flow to movement in net debt	8
Notes	9

Directors' report

The directors present their report and audited financial statements for the year ended 31 July 2011

Business review and principal activities

H2S remain principally engaged in the rearing and growing of broiler chickens. There have not been any significant changes in the company's principal activities during the year under review.

The market has been volatile during this year with sales volumes increasing but the mix changing dramatically. This has reflected the economic situation, with a fall in demand for speciality products while the value range has increased. British agriculture has benefitted from a favourable exchange rate with fewer EU imports and there has been a general shift towards UK agriculture.

The business has continued to focus on improving technical performance on our farms, reducing mortality rates and feed conversion ratios. Production volumes have increased across all regions, in particular the Humberside region as 2 Sisters Food Group continues to expand within the UK. The company had several new farms coming into production towards the end of 2010. This provided modern, efficient farms that will enable us to provide a sustainable supply to meet market requirements.

The year has seen continued high commodity prices particularly on wheat and soya. Through its pricing mechanisms and management, the impact of the increases have been mitigated.

Overall the business has achieved a profit on ordinary activities before taxation of £434,000. No dividend has been declared or paid.

The directors are of the opinion that despite continuing challenging trading conditions, in particular high feed and energy prices, the company is well positioned to maintain its strong trading performance throughout the remainder of 2011 and into 2012.

Financial risk management objectives and policies

The company operates within a framework of weekly financial and performance measures covering profitability, cash flow and poultry production together with monthly management accounts, which enable the Board to manage the internal and external drivers of the business, in a proactive, controlled and timely manner so as to minimise the financial and operational impacts and risks upon the company. The company also uses a non-financial measure in the form of staff numbers, which is measured on a weekly basis.

Operational risk

The company faces a number of operational challenges and risks which are outside its day to day control, with the key identified risk being Avian Influenza. The company has structured its operations into regional groups to minimise the impact of Avian Influenza and has developed contingency plans should an outbreak occur. Although not fool proof, good bio-security is a key defence against this risk occurring on an H2S farm.

Much has been made in the media about the potential impact of swine flu. H2S have implemented a number of contingency plans to ensure the continuing ongoing functioning of the business in such circumstances.

Price risk

The company has a significant level of expenditure which is linked to the price of products in the commodity markets (wheat, soya and gas). In order to minimise the impact of such movements, the Board assess the future prices on these commodity markets and take forward cover or fixed price contracts to mitigate, where possible, any significant changes in any given budget year. It also has sales pricing mechanisms linked to the price of these commodities that largely offsets the impact on its gross margin position.

Credit risk

The company's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of any allowance for doubtful debts estimated by the directors. The company has a strict credit vetting policy and where applicable operates credit insurance.

Directors' report *(continued)*

Financial risk management objectives and policies *(continued)*

Liquidity risk

In order to maintain liquidity and ensure sufficient funds are available for the daily trading of the business, the company uses a mix of long term and short term debt finance. It also prepares periodic cash flow reforecasts to monitor and predict its ongoing liquidity needs.

Disabled employees

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities.

It is the policy of the company that training, career development and promotion opportunities should be available to all employees.

Employment involvement

H2S keeps employees informed of matters affecting them as employees through regular team meetings, briefings and announcements.

Directors

The directors who held office during the year were as follows:

JW Hook
RS Boparan
MR Wannell
JS Silk (resigned 18 August 2011)
S Henderson (appointed 18 August 2011)

Proposed dividend

The directors do not propose the payment of a dividend.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditor

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

By order of the board



S Henderson
Director

Cote
Bampton
Oxfordshire
OX18 2EG

11 November 2011

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP

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Snow Hill Queensway
Birmingham
B4 6GH
United Kingdom

Independent auditor's report to the members of Hook 2 Sisters Limited

We have audited the financial statements of Hook 2 Sisters Limited for the year ended 31 July 2011 set out on pages 6 to 17. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 July 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Hook 2 Sisters Limited
(continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



IG Greaves (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

11 November 2011

Profit and loss account
for the year ended 31 July 2011

	<i>Notes</i>	2011 £000	2010 £000
Turnover	2	320,153	281,941
Cost of sales		(277,977)	(241,612)
Gross profit		42,176	40,329
Administrative expenses		(41,703)	(39,246)
Operating profit		473	1,083
Interest payable and similar charges	5	(39)	(41)
Profit on ordinary activities before taxation	3	434	1,042
Tax on profit on ordinary activities	6	(99)	(292)
Profit on ordinary activities after taxation	15	335	750

All of the above relates to continuing operations

There were no recognised gains and losses in either year other than the profit for the year

There is no material difference between the retained profit for the period and the historical cost equivalent in either year

Balance sheet
at 31 July 2011

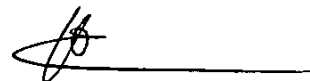
	<i>Note</i>	2011 £000	£000	2010 £000	£000
Fixed assets					
Tangible assets	7		5,183		5,129
Current assets					
Stocks	8	15,900		12,430	
Debtors	9	40,409		25,247	
Cash at bank and in hand		700		-	
		<u>57,009</u>		<u>37,677</u>	
Creditors: Amounts falling due within one year	10	<u>(54,477)</u>		<u>(35,046)</u>	
Net current assets			2,532		2,631
Total assets less current liabilities			7,715		7,760
Creditors: Amounts falling due after more than one year	11		(2,500)		(2,880)
Provisions for liabilities and charges	12		(308)		(308)
Net assets			4,907		4,572
Capital and reserves					
Called up share capital	13		1,000		1,000
Profit and loss account	14		3,907		3,572
Shareholders' funds	15		4,907		4,572

These financial statements were approved by the board of directors on 11 November 2011 and were signed on its behalf by



Mark Wannell
Director

Company number 5969169



Stephen Henderson
Director

Cash flow statement
for the year ended 31 July 2011

	<i>Note</i>	2011 £000	2010 £000
Net cash inflow from operating activities	18	2,720	1,788
Returns on investments and servicing of finance	19	(39)	(41)
Taxation		(280)	(260)
Capital expenditure	19	(921)	(809)
Cash inflow before financing		1,480	678
Financing	19	(760)	(744)
Increase/(decrease) in cash in the period		720	(66)

Reconciliation of net cash flow to movement in net debt
for the year ended 31 July 2011

	<i>Note</i>	2011 £000	2010 £000
Increase/(decrease) in cash in the year		720	(66)
Cash outflow from decrease in lease financing		-	4
Cash outflow from repayment of debt		760	740
Movement in net debt in the year		1,480	678
Net debt at the start of the year		(3,660)	(4,338)
Net debt at the end of the year	20	(2,180)	(3,660)

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules

The financial statements have been prepared on the going concern basis which assumes that the company will continue to trade. The company is dependent on the continued support of its two shareholders. They have confirmed that they will continue to support the company financially for at least 12 months from the date that these financial statements have been signed. As with any company placing reliance on others for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so. On this basis, the directors believe that it is appropriate for the financial statements to be prepared on a going concern basis. The financial statements do not contain the adjustment that would arise if the financial statements were not drawn up on a going concern basis.

Fixed assets and depreciation

Depreciation is provided by equal instalments over their expected useful lives, as follows

Plant and machinery	-	15% reducing balance
Land and buildings	-	10% straight line
Motor vehicles	-	25% straight line

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Pensions

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Stock

Stocks are stated at the lower of cost and net realisable value.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover represents the invoiced value, net of value added tax, of goods sold to customers.

Notes (continued)

2 Analysis of turnover

	2011 £000	2010 £000
<i>By geographical market</i>		
United Kingdom	320,153	281,941

3 Notes to the profit and loss account

	2011 £000	2010 £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Depreciation of tangible fixed assets		
Owned assets	857	874
Operating lease costs		
Land and buildings	2,322	2,316
Vehicles	1,355	646
<i>Auditors' remuneration</i>		
Audit of these financial statements	24	24
Other services relating to tax	6	5

4 Staff numbers and costs

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

	Number of employees 2011	2010
Production staff	226	217
Distribution staff	46	47
Administrative staff	27	26
	299	290

The aggregate payroll costs of these persons were as follows

	£000	£000
Wages and salaries	8,634	8,448
Social security costs	707	665
Other pension costs	24	22
	9,365	9,135

The directors, all of whom are employees of either PD Hook (Group) Limited or 2 Sisters Food Group Limited, are remunerated through these companies

Notes (continued)

5 Interest payable and similar charges

	2011 £000	2010 £000
Interest on bank loans	39	41

6 Taxation

Analysis of charge in period

	2011 £000	£000	2010 £000	£000
<i>UK corporation tax</i>				
Current tax on income for the year	101		282	
Adjustments in respect of prior years	(2)		(12)	
Total current tax		99		270
<i>Deferred tax (see note 13)</i>				
Origination of timing differences	23		26	
Changes in tax rate	(23)		-	
Adjustments in respect of prior years	-		(4)	
Total deferred tax		-		22
Tax on profit on ordinary activities		99		292

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2010 lower) than the standard rate of corporation tax in the UK of 27% (2010 28%). The differences are explained below

	2011 £000	2010 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before taxation	434	1 042
Current tax at 27% (2010 28%)	118	292
<i>Effects of</i>		
Expenses not deductible for tax purposes	3	2
Capital allowances in excess of depreciation	(27)	(25)
Depreciation on ineligible	22	23
Other timing differences	3	-
Tax rate lower than standard rate percentage on taxable profits	(18)	(10)
Adjustment to tax change in respect of previous periods	101 (2)	282 (12)
Total current tax charge (see above)	99	270

Notes (continued)

6 Taxation (continued)

Factors that may affect future current and total tax charges

The 2011 Budget on 23 March 2011 announced that the UK corporation tax rate will reduce to 23% over a period of 4 years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% (effective from 1 April 2011) was substantively enacted on 20 July 2010, and further reductions to 26% (effective from 1 April 2011) and 25% (effective from 1 April 2012) were substantively enacted on 29 March 2011 and 5 July 2011 respectively.

This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 July 2011 has been calculated based on the rate of 25% substantively enacted at the balance sheet date.

It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax liability accordingly.

7 Tangible fixed assets

	Freehold property £000	Plant and machinery £000	Motor vehicles £000	Total £000
<i>Cost</i>				
At beginning of year	998	8,134	106	9,238
Additions	156	765	-	921
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	1,154	8,899	106	10,159
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At beginning of year	269	3,782	58	4,109
Charge for the year	105	745	17	867
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	374	4,527	75	4,976
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 July 2011	780	4,372	31	5,183
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 July 2010	729	4,352	48	5,129
	<hr/>	<hr/>	<hr/>	<hr/>

8 Stocks

	2011 £000	2010 £000
Raw materials and consumables	3,384	2,982
Work in progress	12,516	9,448
	<hr/>	<hr/>
	15,900	12,430
	<hr/>	<hr/>

Notes (continued)

9 Debtors

	2011	2010
	£000	£000
Trade debtors	3,388	1,866
Amounts owed by related undertakings	33,287	19,774
Other debtors	3,525	3,369
Prepayments	209	238
	<u>40,409</u>	<u>25,247</u>

10 Creditors: Amounts falling due within one year

	2011	2010
	£000	£000
Bank loan (secured – see note 11)	380	760
Bank overdraft	-	20
Trade creditors	44,883	28,861
Amounts owed to related undertakings	4,971	2,814
Corporation tax	99	282
Other taxation and social security	192	186
Accruals and deferred income	3,952	2,123
	<u>54,477</u>	<u>35,046</u>

11 Creditors: Amounts falling due after more than one year

	2011	2010
	£000	£000
Bank loan (secured)	-	380
Loans from related undertakings	2,500	2,500
	<u>2,500</u>	<u>2,880</u>

The loans from related undertakings consist of two loans of £1,250,000 (2010 £1,250,000) each from PD Hook (Group) Limited and 2 Sisters Food Group Limited. These loans are due for repayment on 9 February 2012.

The bank loan is secured by fixed and floating charges over the assets of the company. The loan is due for repayment by 31 December 2011.

Amounts due under finance lease or hire purchase agreements are secured on the assets to which they relate.

Notes (continued)

11 Creditors: Amounts falling due after more than one year (continued)

Analysis of debt

	2011 £000	2010 £000
Debt can be analysed as falling due		
In one year or less	380	760
Between one and two years	2,500	2,880
	<u>2,880</u>	<u>3,640</u>

12 Provisions for liabilities and charges

	Deferred taxation £000
Deferred tax liability at beginning of year	308
Charge to the profit and loss for the year (see note 6)	-
Deferred tax liability at end of year	<u>308</u>

The elements of deferred taxation are as follows

	2011 £000	2010 £000
Difference between accumulated depreciation and capital allowances	308	308
Other timing differences	-	-
	<u>308</u>	<u>308</u>

13 Called up share capital

	2011 £000	2010 £000
<i>Allotted, called up and fully paid:</i>		
1 000,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

14 Reserves

	Profit and loss account £000
At beginning of year	3,572
Profit for the financial year	335
At end of year	<u>3,907</u>

Notes (continued)

15 Reconciliation of movements in shareholders' funds

	2011 £000	2010 £000
Opening shareholders' funds	4,572	3,822
Profit for the financial year	335	750
Closing shareholders' funds	4,907	4,572

16 Commitments

At 31 July 2011, the company had capital commitments of £102,173 (2010 £166,814) Annual commitments under non-cancellable operating leases are as follows

	2011 Land and buildings £000	Other £000	2010 Land and buildings £000	Other (Restated) £000
Operating leases which expire				
Within one year	4	116	-	53
In the second to fifth years inclusive	2,291	945	2,316	916
	2,295	1,061	2,316	969

17 Pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the company to the scheme and amounted to £24,000 (2010 £22,000). There were £2,000 outstanding contributions at 31 July 2011 (2010 £Nil).

18 Reconciliation of operating profit to net cash inflow from operating activities

	2011 £000	2010 £000
Operating profit	473	1,083
Depreciation charge	867	874
Loss on disposal of fixed assets	-	32
Increase in stocks	(3,470)	(699)
Increase in debtors	(15,162)	(2,087)
Increase in creditors	20,012	2,585
Net cash inflow from operating activities	2,720	1,788

Notes (continued)

19 Analysis of cash flows

	2011	2010
	£000	£000
Returns on investments and servicing of finance		
Interest paid (see note 5)	<u>(39)</u>	<u>(41)</u>
Capital expenditure		
Purchase of tangible fixed assets	(921)	(824)
Receipts from sale of tangible fixed assets	-	15
	<u>(921)</u>	<u>(809)</u>
Financing		
Repayment of bank loan	(760)	(740)
Capital element of finance lease rental payments	-	(4)
	<u>(760)</u>	<u>(744)</u>

20 Analysis of net debt

	31 July 2010	Cash flow	Non- cash flow	31 July 2011
	£000	£000	£000	£000
Cash at bank and in hand	-	700	-	700
Bank overdraft	(20)	20	-	-
Loans due within one year	(760)	760	(380)	(380)
Loans due beyond one year	(2,880)	-	380	(2,500)
	<u>(3,660)</u>	<u>1,480</u>	<u>-</u>	<u>(2,180)</u>
Net debt	<u>(3,660)</u>	<u>1,480</u>	<u>-</u>	<u>(2,180)</u>

Notes (continued)

21 Related party transactions

During the year, Hook 2 Sisters Limited entered into the following transactions with related parties

		2011		2010	
		Transactions	Outstanding	Transactions	Outstanding
		in year	as at	in year	as at
		£000	31 July 2011	£000	31 July 2010
			£000		£000
Sales					
PD Hook (Breeders) Ltd	Farm Recharges	29	-	27	12
PD Hook (Group) Ltd	Telephone Recharges	1	-	-	-
PD Hook (Hatcheries) Ltd	Farm Recharges	6	-	21	-
PD Hook (Rearing) Ltd	Farm Recharges	23	-	11	4
Amber Real Estate Investments Ltd	Broiler Farm Recharges	135	168	196	374
2 Sisters Food Group Ltd	Broiler Chicken Sales	317,248	32,594	281,314	19,375
Purchases					
PD Hook (Group) Ltd	Provision of management services	887	214	925	9
PD Hook (Hatcheries) Ltd	Day old chick purchases	51,356	4,169	44,167	2,521
PD Hook (Breeders) Ltd	Farm recharges	13	-	-	-
PD Hook (Rearing) Ltd	Sundry	422	233	1	-
PD Hook (Broilers) Ltd	Vehicle rental	-	-	6	-
Amber Real Estate Investments Ltd	Broiler Farm Rental	10,307	51	9,439	275
2 Sisters Food Group Ltd	Sundry	21	12	29	5

In addition, note 11 sets out the loans payable to related parties as at 31 July 2011

22 Ultimate parent company

The directors consider that PD Hook (Group) Limited and 2 Sisters Food Group Limited are the company's ultimate controlling parties by virtue of their each holding 50% of the issued share capital

The largest and smallest groups of undertakings for which group financial statements have been drawn up are those headed by PD Hook (Group) Limited and Boparan Holdings Limited respectively, both of which are registered in England and Wales. The group financial statements of both holding companies are publicly available at Companies House.