

**Hook 2 Sisters Limited**

**Annual report and financial  
statements**

**Registered number 5969169**

**Year ended 31 July 2017**



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## Strategic report

### Principal activity

The principal activity of the Company is the rearing and growing of broiler chickens for use in the Retail and Food Service sectors. The Company is a joint venture between PD Hook (Group) Limited and 2 Sisters Food Group Limited. There have not been any significant changes in the company's principal activities during the year under review.

### Business review and future developments

*Overview* - The business has remained focused on its strategic aim of being a major producer of reared and grown broilers chickens in the UK, but has also taken the opportunity to expand during the year into the rearing of turkeys.

On the 20 September 2016, Amber Real Estate Investments (Industrial) Limited purchased Bernard Matthews Food Limited from the administrator BMHL Realisations 2016 Ltd.

On 24 February 2017, the Company acquired the turkey commercial growing activities previously operated by Bernard Matthews from Bernard Matthews Foods Ltd. This included the purchase of £13.83 million stock and the TUPE transfer of 293 staff. We entered into a number of farm business tenancies with external landlords to provide us with a farming base from which to undertake these growing activities.

This acquisition has been made to expand our poultry portfolio and to support agriculturally our customer base in their aim to provide a wide product offering to the UK Retail and Food Service sectors.

Given the seasonal nature of this business we have undertaken a full review of the operations and initiated a number of changes to improve the supply base and efficiency of the farm base. As a consequence we have incurred some non-recurring restructuring costs amounting to £1.112 million which have been incurred in this financial year.

Although the economic background has remained tight and the retailers have continued to experience a challenging trade environment, the demand for British chicken has remained strong being a healthy, versatile, low cost protein. We have however experienced a gradual increase in commodity and fuel prices together with general inflation across the business, in some cases caused by exchange rate movements, which we have been unable to fully pass through on our pricing mechanisms which have resulted in an increase in a cost base and reduction of our operating margins.

Annual sales increased £96.6 million in the year from £576.4 million to £673.0 million, linked to an increase in volumes sales and the acquisition in the year.

The business has continued to focus on improving technical performance on our farms, reducing mortality rates and feed conversion ratios while investing, either directly or through our landlord's support, to improve the general standards of our farm infrastructure.

We have continued to see a marked increase in the level of volatility in demand and with the acquisition of the turkey operation we now have greater seasonality than previously with a significant level of production produced for Christmas.

We have responded to this through a continued focus on optimising the use of our assets to ensure a balance between production and demand so as to provide quality and service to our customers such that British chicken and turkey has remained a resilient popular choice supplied from Farm Assured facilities.

The business has been through a period of significant change and turbulence but despite this has achieved a profit before tax and exceptional charges of £272,000 (2016: £1,411,000). Loss before tax including exceptionals is £839,000 (2016 profit: £1,411,000).

*Strategy* – Our objective is to be a major provider of quality grown chicken in the UK across all production types balancing the need for low cost production while maintaining the high standard expected by Retailers and consumers for British Chicken.

*Risk Management* - The Board is ultimately responsible for risk management and continues to develop policies and procedures that reflect the nature and scale of the Company's business. These are designed to identify, mitigate and manage risk, but they cannot entirely eliminate it. The Board has identified the following key areas of risk to the business:

- **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 a company operated farm.

## Strategic report *(continued)*

### Business review and future developments *(continued)*

- **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.
- **Brexit** – The Company has assessed the impact of the UK vote to leave the European Union and the subsequent policy changes and negotiations. Although initially this led to some positive movements in exchange rates and demand we feel this will in the medium term increase the cost of commodities purchased in the business. Of major concern is the impact this move may have on the availability of labour and places considerable doubt upon our ability to operate a wide farming base across the UK and our prime customer's ability to continue operating their processing plants without a pool of migrant labour. This has been addressed directly with the UK Government and where possible will be mitigated by automation.
- **Key Employees** – The Company operates in excess of 270 farms across the whole of the UK which are dependent upon the performance of employee's. The failure to recruit and retain the right people could have an adverse impact on the Company and its performance. The Company has therefore developed and continues to monitor its remuneration and incentive packages to assist in the attraction and retention of key employee's.
- **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.
- **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.

**Tax Strategy** – We recognise that compliance with tax filing and payment obligations is one of its key responsibilities. In common with all aspects of the operation of its business, the oversight is assigned to one member of the Board, namely the Chief Financial Officer ("CFO"), whose responsibility is to appraise the Board of key tax events. This allows the Board members to be adequately engaged in the tax affairs of the Company and thereby ensure Hook2Sisters Limited is adhering to its responsibilities.

They are five key principles to which Hook2Sisters Limited adheres when considering all aspects of taxation. These principles provide steering to key stakeholders and offer a framework for decision making as follows:

- **Transparency with HMRC** – Hook2Sisters Limited has an open and transparent relationship with HMRC and values the trust which HMRC places in the business to deliver taxes due. In dealing with HMRC the Company seeks to maintain and further build on this relationship through proactive engagement.
- **Appropriately Qualified Tax team** – Hook2Sisters Limited is supported by an appropriately qualified and experienced accounts team and invests in continued professional development. The Board will continue to review the structure of this team at suitable intervals to ensure it remains appropriate to the business and external tax environment.
- **External advisors** – To assist the accounting team Hook2Sisters Limited engages with external advisors to provide technical expertise when necessary or required. This engagement takes place with the CFO for operational and compliance matters.
- **Attitude to tax planning** – Hook2Sisters Limited has a strong commercial focus and as part of its duty to its stakeholders to control unnecessary costs it utilises tax reliefs and allowances available in the manner in which intended by the tax authorities and statute. Hook2Sisters Limited does not engage in any artificial tax arrangements.
- **Risk Management and Governance** – Hook2Sisters Limited has a clear overview of its tax risks which is documented in its tax risk matrix. The Board recognises this and considers that the tax strategy sits alongside stringent financial controls to manage its tax exposures.

## Strategic report (continued)

### Business review and future developments (continued)

As an employer with a large number of employees, corporation tax alone is not a balanced reflection of the total tax contribution made by Hook2Sisters Limited. The estimated taxes borne or collected by Hook2Sisters Limited in relation to the 2017 financial year were as follows:

	£000
Employer's National Insurance contribution	2,355
Employees' National Insurance contribution	3,157
PAYE	1,885
Corporation tax	(169)
<b>Total</b>	<b>7,228</b>

*Modern Slavery Statement-* Hook2Sisters understands that slavery, forced labour, servitude and human trafficking (Modern Slavery) are issues that pose an increasing threat to workers and their employers. Throughout our operations, we have a responsibility to be alert and vigilant to the risks, however small, in our Business and our supply chain, and to react immediately to any reported concerns to the Gangmasters and Labour Abuse Authority (GLAA)

In accordance with Section 54 of the Modern Slavery Act 2015, we set out below the steps that have been and currently are being taken by the organisations to actively ensure that we prevent slavery and/or trafficking in our Business. We acknowledge and understand that Modern Slavery risk can vary, and will, in collaboration with our Supply Chain Partners continue our approach to robustly and adaptively mitigate this risk.

- Responsibility for the maintenance of this Policy resides with the Head of HR
- Responsibility for the execution of this Policy resides with everyone involved in our Business

A full explanation of our policy and procedures relating to modern slavery are available on the company website.

*Corporate Social Responsibility (CSR)* – The Company recognises the importance of balancing the interests of key stakeholders – customers, employees, shareholders, suppliers and the wider community in which it operates. The Company remains committed to a continuous improvement in its processes to ensure its activities comply with environmental standards and legislation.

We have worked closely with the leading Retailers to ensure our business and that of our suppliers meet the required ethical standards in relation to the employment of labour. We have responded to changes in legislation during the year in respect of labour, working time and conditions to ensure these are built into our own and our contractors working approach through the development of revised policies, procedures and contracts.

*Health & Safety* – Health and Safety remains core to the Company's business and its employee's. We continued to build on the foundations of best working practice and continuous improvement as outlined in our H&S Policy. We remained dedicated to implementing a culture where every employee understands the value of H&S on site and accepts responsibility for their own and others safety. This is implemented through a platform of Senior H&S meetings and risk assessments.

### Key Performance Indicators

The Company operates within a framework of weekly financial and performance measures covering profitability, cash flow and poultry production statistics 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 and accident reporting, which is measured on a weekly basis.

## Strategic report *(continued)*

### Outlook

Despite a tough retail trading environment and fragile economic conditions the outlook feels positive with falling commodity costs providing an opportunity for lower unit prices that will help stimulate the purchase of chicken as an attractive, versatile and valued product. As such the directors are of the opinion that our business model is robust enough to see us through the next stage of our development. Although the coming year is likely to prove equally challenging as the last we feel the combined efforts of our outstanding staff, our quality supply chain and the resourcefulness of our valued customers will enable us to succeed.

By order of the Board



**MR Wannell**  
*Director*

Cote  
Bampton  
Oxfordshire  
OX18 2EG

18 December 2017

## Directors' report

The directors present their report and audited financial statements for the year ended 31 July 2017.

### Results

For the year ended 31 July 2017, the Company reported a profit on ordinary activities excluding exceptional charges and before taxation of £272,000 (2016: £1,411,000) on turnover of £673,000,000 (2016: £576,403,000). Loss before tax including exceptionals is £839,000 (2016 profit: £1,411,000).

### Dividends

No dividend has been declared or paid in the year (2016: £Nil).

### 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

Hook 2 Sisters 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

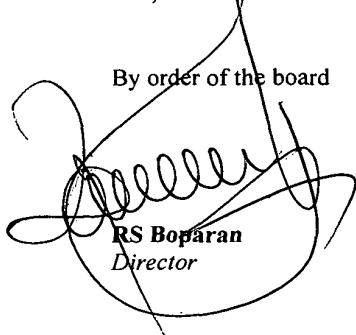
### Disclosure of information to auditors

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.

### Auditors

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

By order of the board



RS Boparan  
Director

Cote  
Bampton  
Oxfordshire  
OX18 2EG

18 December 2017

## **Statement of directors' responsibilities in respect of the Strategic Report, Directors' Report and the financial statements**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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





## KPMG LLP

One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH  
United Kingdom

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

#### **Opinion**

We have audited the financial statements of Hook 2 Sisters Limited ("the company") for the year ended 31 July 2017 which comprise the Profit and Loss Account and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 July 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Basis for opinion**

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

#### **Going concern**

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

#### **Strategic report and Directors' report**

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

Our responsibility is to read the Strategic report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

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

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

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

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

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

We have nothing to report in these respects.

### **Directors' responsibilities**

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **The purpose of our audit work and to whom we owe our responsibilities**

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



**Xavier Timmermans (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*  
*KPMG LLP*  
*One Snowhill*  
*Snowhill Queensway*  
*Birmingham*  
*B4 6GH*

20<sup>th</sup> December 2017

**Profit and Loss Account and Other Comprehensive Income**  
*for the year ended 31 July 2017*

	<i>Notes</i>	<b>2017 £000</b>	<b>2016 £000</b>
<b>Turnover</b>	<b>4</b>	<b>673,000</b>	<b>576,403</b>
Cost of sales		<b>(570,364)</b>	<b>(486,003)</b>
<b>Gross profit</b>		<b>102,636</b>	<b>90,400</b>
Administrative expenses ( <i>including exceptional charges of £1,112,000</i> <i>(2016: £Nil)</i> )	<b>5,6</b>	<b>(103,431)</b>	<b>(88,815)</b>
<b>Operating (loss)/profit</b>		<b>(795)</b>	<b>1,585</b>
Profit/(loss) on disposal of fixed assets		<b>3</b>	<b>(148)</b>
Interest payable and similar charges	<b>8</b>	<b>(47)</b>	<b>(26)</b>
<b>(Loss)/profit before taxation</b>		<b>(839)</b>	<b>1,411</b>
Taxation	<b>9</b>	<b>48</b>	<b>(289)</b>
<b>(Loss)/profit for the year and total comprehensive income</b>		<b>(791)</b>	<b>1,122</b>

The notes on pages 12 to 25 form part of these financial statements.

All of the above relates to continuing operations.

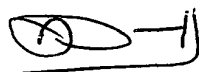
There were no amounts that should be recognised in other comprehensive income for the year.

**Balance sheet**  
*at 31 July 2017*

	<i>Note</i>	<b>2017</b> <b>£000</b>	<b>£000</b>	<b>2016</b> <b>£000</b>	<b>£000</b>
<b>Fixed assets</b>					
Tangible assets	10		11,993		6,187
<b>Current assets</b>					
Stocks	11	40,257		21,493	
Debtors	12	82,017		73,357	
		<u>122,274</u>		<u>94,850</u>	
<b>Creditors: Amounts falling due within one year</b>	14	<u>(121,535)</u>		<u>(91,452)</u>	
<b>Net current assets</b>			739		3,398
<b>Total assets less current liabilities</b>			<u>12,732</u>		<u>9,585</u>
<b>Creditors: Amounts falling due after more than one year</b>	15		(8,416)		(4,503)
<b>Provisions for liabilities and charges</b>					
Deferred tax liability	18		(227)		(202)
<b>Net assets</b>			<u>4,089</u>		<u>4,880</u>
<b>Capital and reserves</b>					
Called up share capital	20	1,000		1,000	
Profit and loss account		3,089		3,880	
<b>Shareholders' funds</b>			<u>4,089</u>		<u>4,880</u>

The notes on pages 12 to 25 form part of these financial statements.

These financial statements were approved by the board of directors on 18 December 2017 and were signed on its behalf by:



**MR Wannell**  
*Director*

Company registered number: 5969169



**RS Boporan**  
*Director*

**Statement of Changes in Equity**  
*for year ended 31 July 2017*

	<b>Called up Share capital £000</b>	<b>Profit and loss account £000</b>	<b>Total equity £000</b>
Balance at 1 August 2015	1,000	2,758	3,758
<b>Total comprehensive income for the year</b>			
Profit for the year	-	1,122	1,122
	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	-	1,122	1,122
	<hr/>	<hr/>	<hr/>
Balance at 31 July 2016	1,000	3,880	4,880
	<hr/>	<hr/>	<hr/>
Balance at 1 August 2016	1,000	3,880	4,880
<b>Total comprehensive income for the year</b>			
Loss for the year	-	(791)	(791)
	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	-	(791)	(791)
	<hr/>	<hr/>	<hr/>
<b>Balance at 31 July 2017</b>	<b>1,000</b>	<b>3,089</b>	<b>4089</b>
	<hr/>	<hr/>	<hr/>

**Cash Flow Statement**  
*for year ended 31 July 2017*

	<i>Note</i>	<b>2017</b> <b>£000</b>	<b>2016</b> <b>£000</b>
<b>Cash flows from operating activities</b>			
Profit/ (loss) for the year		(791)	1,122
<i>Adjustments for:</i>			
Depreciation		1,829	1,169
Interest payable and similar charges	8	47	26
Loss on sale of tangible fixed assets		(3)	148
Taxation	9	(48)	289
		<hr/>	<hr/>
(Increase)/decrease in trade and other debtors		1,034	2,754
Decrease/(increase) in stocks		(8,660)	(5,117)
Increase/(decrease) in trade and other creditors		(4,937)	3,173
(Decrease)/increase in provisions		26,828	1,054
		<hr/>	<hr/>
Tax paid		174	(5)
		<hr/>	<hr/>
<b>Net cash from operating activities</b>		<b>14,439</b>	<b>1,196</b>
		<hr/>	<hr/>
<b>Cash flows from investing activities</b>			
Proceeds from sale of tangible fixed assets	10	10	8
Acquisition of tangible fixed assets	10	(6,553)	(1,708)
Acquisition of a business	3	(14,920)	-
		<hr/>	<hr/>
<b>Net cash from investing activities</b>		<b>(21,463)</b>	<b>(1,700)</b>
		<hr/>	<hr/>
<b>Cash flows from financing activities</b>			
Interest paid	8	(47)	(26)
Payment of finance lease liabilities		2,557	(6)
Proceeds from new loan	15	2,000	2,000
		<hr/>	<hr/>
<b>Net cash from financing activities</b>		<b>4,510</b>	<b>1,968</b>
		<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents		(2,514)	1,464
Cash and cash equivalents at 1 August		(3,347)	(4,811)
		<hr/>	<hr/>
<b>Cash and cash equivalents at 31 July</b>	13	<b>(5,861)</b>	<b>(3,347)</b>
		<hr/>	<hr/>

The notes on pages 11 to 25 form part of these financial statements.

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

Hook 2 Sisters Limited (the "Company") is a company limited by shares and incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014. The amendments to FRS 102 issued in July 2016 and effective immediately have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

#### 1.1 Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value.

#### 1.2 Going concern

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.

#### 1.3 Basic financial instruments

##### *Trade and other debtors / creditors*

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

##### *Interest-bearing borrowings classified as basic financial instruments*

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.3 Basic financial instruments (continued)

##### Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

#### 1.4 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described at 1.11 below.

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- Freehold property 10% reducing balance
- Plant and equipment 15% reducing balance
- Motor vehicles 25% reducing balance

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

#### 1.5 Business combinations

Business combinations are accounted for using the purchase method as at the acquisition date, which is the date on which control is transferred to the company.

At the acquisition date, the company recognises goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- directly attributable transaction costs; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities.

#### 1.6 Stocks

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



## Notes (continued)

### 1 Accounting policies (continued)

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

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

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

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

#### 1.8 Employee benefits

##### *Defined contribution plans*

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

#### 1.9 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

#### 1.10 Turnover

Turnover represents the invoiced value, net of value added tax, of goods sold to customers. The company expects risk and rewards to be transferred by receipt of the customer.

#### 1.11 Expenses

##### *Operating lease*

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

##### *Finance lease*

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

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

Interest payable and similar charges include interest payable and finance leases recognised in profit or loss using the effective interest method and the unwinding of the discount on provisions. Other interest receivable and similar income include interest receivable on funds invested. Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.12 Taxation

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

### 2 Accounting estimates and judgements

The preparation of the company's accounts requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods impacted.

The key judgements and estimates employed in the financial statements are considered below.

#### *Onerous Lease Provision*

Management assesses the properties leased throughout the financial year, where it is identified that there is an onerous lease, the present obligation under the contract is recognised and measured as a provision.

#### *Deferred Tax*

In determining the quantum of deferred tax assets to be recognised, judgement is required in assessing the extent to which it is probable that future taxable profit will arise in the companies concerned. Management use forecasts of future taxable profits and make assumptions on growth rates for each entity at each year end in assessing the recoverability of assets recognised.

## Notes (continued)

### 3 Acquisitions of businesses

On the 20 September 2016, Amber Real Estate Investments (Industrial) Limited purchased Bernard Matthews Food Limited from the administrator BMHL Realisations 2016 Ltd.

On 24 February 2017, the Company acquired all of the turkey growing assets and stock from Bernard Matthews Foods Limited for £14,920,000. The Company undertakes turkey growing and live haul, supplying into Bernard Matthews Foods Limited. The business contributed revenue of £36,573,000 and a net loss of £1,871,000 to the net profit in the year. This transaction has been accounted for as an acquisition under the acquisition method of accounting. There was no goodwill created on acquisition as the fair value amounts of assets acquired was paid.

The table below states the book and fair values of the identifiable assets and liabilities acquired.

	Book Value	Fair Value Adjustments	Fair Value
	£000	£000	£000
<b>Tangible fixed assets</b>	<b>1,093</b>	<b>-</b>	<b>1,093</b>
<b>Current Assets</b>			
Stocks	14,863	(1,036)	13,827
<b>Total assets</b>	<b>15,956</b>	<b>(1,036)</b>	<b>14,920</b>
<b>Purchase consideration and expenses</b>			<b>14,920</b>

The purchase consideration and expenses was satisfied as follows:

	£000
Cash paid*	14,920

\* Included in amounts paid relates to amount paid to Bernard Matthews Foods Limited of £14,920,000.

During the year, the Company incurred exceptional costs of £1,112,000 relating to reorganisation and restructuring costs and these are included in administration expenses.

### 4 Turnover

	2017 £000	2016 £000
Sale of goods	673,000	576,403

All sales are made within the United Kingdom.

## Notes (continued)

### 5 Expenses and auditor's remuneration

Included in profit/loss are the following:

	2017 £000	2016 £000
Restructuring costs expensed as incurred – included in administrative expenses	1,112	-

Auditor's remuneration:

	2017 £000	2016 £000
Audit of these financial statements	38	26
Amounts receivable by the company's auditor and its associates in respect of:		
Taxation compliance services	12	9
Other tax advisory services	1	1

### 6 Staff numbers and costs

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

	Number of employees	
	2017	2016
Production staff	466	435
Distribution staff	255	208
Administrative staff	87	67
	808	710

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	25,516	22,329
Social security costs	2,409	2,001
Contributions to defined contribution plans	561	422
	28,486	24,752

### 7 Directors' remuneration

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)

### 8 Interest payable and similar charges

	2017 £000	2016 £000
Interest payable on financial liabilities at amortised cost	47	26
Total other interest payable and similar charges	47	26

Interest payable and similar charges includes interest payable and similar on bank loans and overdrafts of £47,000 (2016: £26,000).

### 9 Taxation

#### Total tax expense recognised in the profit and loss account, other comprehensive income and equity

	2017 £000	£000	2016 £000	£000
<i>Current tax</i>				
Current tax on income for the period	(70)		191	
Adjustments in respect of prior periods	(3)		(169)	
Total current tax		(73)		22
<i>Deferred tax (see note 18)</i>				
Origination and reversal of timing differences	34		126	
Change in tax rate	(11)		(8)	
Adjustments in respect to prior years	2		149	
Total deferred tax		25		267
Total tax		(48)		289

All deferred tax has been recognised through profit and loss.

#### Reconciliation of effective tax rate

	2017 £000	2016 £000
(Loss)/profit for the year	(791)	1,122
Total tax (credit)/expense	(48)	289
(Loss)/profit excluding taxation	(839)	1,411
Tax using the UK corporation tax rate of 19.67% (2016: 20%)	(165)	282
Reduction in tax rate on deferred tax balances	(17)	(8)
Non-deductible expenses	43	4
Capital allowances in excess of depreciation	93	31
(Over) / Under provided in prior years	(1)	(20)
Other timing differences	(1)	-
Total tax (credit)expense included in profit or loss	(48)	289

## Notes (continued)

### 9 Taxation (continued)

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2016) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2016, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2017. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 July 2017 has been calculated based on these rates.

### 10 Tangible fixed assets

	Freehold property £000	Plant and equipment £000	Motor vehicles £000	Total £000
<b>Cost</b>				
Balance at 1 August 2016	2,448	12,969	297	15,714
Acquisitions through business combinations	-	277	816	1,093
Other acquisitions	2,806	3,641	107	6,554
Disposals	-	(33)	(9)	(42)
Balance at 31 July 2017	5,254	16,854	1,211	23,319
<b>Depreciation and impairment</b>				
Balance at 1 August 2016	1,109	8,216	202	9,527
Depreciation charge for the year	473	1,235	121	1,829
Disposals	-	(21)	(9)	(30)
Balance at 31 July 2017	1,582	9,430	314	11,326
<b>Net book value</b>				
At 31 July 2017	3,672	7,424	897	11,993
At 1 August 2016	1,339	4,753	95	6,187

#### Leased tangible fixed assets

At 31 July 2017, the net carrying amount of motor vehicles leased under a finance lease was £2,988,000 (2016: £21,300). Depreciation of the year on these assets was £305,000 (2016: £7,100).

### 11 Stocks

	2017 £000	2016 £000
Raw materials and consumables	7,266	4,779
Work in progress	32,991	16,714
	40,257	21,493

The write-down of stocks to net realisable value amounted to £402,300 (2016: £341,088).

**Notes** *(continued)*

**12 Debtors**

	2017 £000	2016 £000
Trade debtors	5,035	3,128
Amounts owed by related undertakings (see note 24)	63,651	59,416
Other debtors	12,172	9,857
Prepayments	1,159	956
	<u>82,017</u>	<u>73,357</u>

Amounts owed by related undertakings are repayable on demand.

**13 Cash and cash equivalents (including bank overdrafts)**

	2017 £000	2016 £000
Bank overdrafts	(5,861)	(3,347)
Cash and cash equivalents per cash flow statements	<u>(5,861)</u>	<u>(3,347)</u>

**14 Creditors: amounts falling due within one year**

	2017 £000	2016 £000
Bank loans and overdrafts (see note 16)	5,861	3,347
Obligations under finance leases (see note 16 and 17)	647	3
Trade creditors	52,888	39,662
Amounts owed to group undertakings (see note 24)	52,530	39,982
Taxation	113	17
Other taxation and social security	855	576
Accruals and deferred income	8,641	7,865
	<u>121,535</u>	<u>91,452</u>

Amounts owed to related undertakings are repayable on demand.

**Notes** *(continued)*

**15 Creditors: amounts falling after more than one year**

	2017 £000	2016 £000
Obligations under finance leases (see note 16 and 17)	1,916	3
Loans from related undertakings (see note 16)	6,500	4,500
	<u>8,416</u>	<u>4,503</u>

The loans from related undertakings consist of two loans of £3,250,000 (2016: £2,250,000) each from PD Hook (Group) Limited and 2 Sisters Food Group Limited. These loans are due for repayment on the 9 February 2019 unless the working capital and cash position within Hook 2 Sisters enables repayment prior to this date within Hook 2 Sisters' banking facilities.

**16 Interest-bearing loans and borrowings**

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost.

	2017 £000	2016 £000
<b>Creditors falling due more than one year</b>		
Finance lease liabilities	1,916	3
Loans from related undertakings	6,500	4,500
	<u>8,416</u>	<u>4,503</u>
<b>Creditors falling due within less than one year</b>		
Finance lease liabilities	647	3
Unsecured bank overdraft	5,861	3,347
	<u>6,508</u>	<u>3,350</u>

*Terms and debt repayment schedule*

	Currency	Nominal interest rate	Year of maturity	2017 £000	2016 £000
Finance lease liabilities	GBP	GBP	2018	2,563	6
Loans from related undertakings	GBP	GBP	2018	6,500	4,500
Unsecured bank overdraft	GBP	GBP	2017	5,861	3,347
				<u>14,924</u>	<u>7,853</u>



## Notes (continued)

### 17 Other interest-bearing loans and borrowings

#### Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2017 £000	Minimum lease payments 2016 £000
Less than one year	647	3
Between one and five years	1,916	3
	<u>2,563</u>	<u>6</u>

### 18 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2017 £000	2016 £000	Liabilities 2017 £000	2016 £000	Net 2017 £000	2016 £000
Accelerated capital allowances	-	-	245	211	245	211
Other	(18)	(9)	-	-	(18)	(9)
	<u>(18)</u>	<u>(9)</u>	<u>245</u>	<u>211</u>	<u>227</u>	<u>202</u>
Tax (assets) / liabilities	(18)	(9)	245	211	227	202
Net of tax liabilities/(assets)	18	9	(18)	(9)	-	-
	<u>18</u>	<u>9</u>	<u>(18)</u>	<u>(9)</u>	<u>-</u>	<u>-</u>
Net tax (assets) / liabilities	-	-	227	202	227	202

### 19 Employee benefits

#### Defined contribution plans

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 £528,000 (2016: £389,000).

There were £107,000 outstanding contributions at 31 July 2017 (2016: £54,000).

## Notes (continued)

### 20 Capital and reserves

#### Share capital

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

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

### 21 Financial instruments

#### 22 (a) Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:

	2017 £000	2016 £000
Assets measured at cost less impairment	82,016	72,401
Liabilities measured at amortised cost	123,525	91,434
Loan commitments measured at cost less impairment	6,500	4,500

### 22 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2017 £000	2016 £000
Less than one year	1,747	4,328
Between one and five years	112,880	24,190
More than five years	55,159	96,282
	169,786	124,800

During the year, £39,597,000 was recognised as an expense in the profit and loss account in respect of operating leases (2016: £32,410,000).

### 23 Commitments

#### Capital commitments

The Company contractual commitments to purchase tangible fixed assets at the year-end were £1,587,675 (2016: £2,242,648).

## Notes (continued)

### 24 Related parties

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

		2017	Outstanding	2016	Outstanding
		Transactions	as at	Transactions	as at
		in year	31 July 2017	in year	31 July 2016
		£000	£000	£000	£000
<b>Sales</b>					
PD Hook (Breeders) Ltd	Farm recharges	20	5	18	16
PD Hook (Group) Ltd	Farm recharges	1	-	-	-
PD Hook (Hatcheries) Ltd	Farm recharges	5	198	3	-
PD Hook (Rearing) Ltd	Farm recharges	(16)	-	6	-
PD Hook (Turkeys) Ltd	Farm recharges	174	6	-	-
Amber Real Estate Investments Ltd	Broiler farm recharges	254	404	(40)	112
2 Sisters Food Group Ltd	Broiler chicken sales	378,259	33,114	334,698	36,559
2 Agriculture Limited	Broiler chicken sales	42,175	3,298	41,432	3,048
2 Sisters Poultry Limited	Broiler chicken sales	210,829	18,561	197,119	19,679
Letham Poultry T/A 1Stop Halal Ltd	Broiler chicken sales	38	41	-	-
Bernard Matthews Foods Ltd	Turkey sales	33,435	8,024	-	-
		<u>665,174</u>	<u>63,651</u>	<u>573,236</u>	<u>59,414</u>
<b>Purchases</b>					
PD Hook (Group) Ltd	Provision of management services	1,030	101	1,156	385
PD Hook (Hatcheries) Ltd	Day old chick purchases	110,539	9,209	102,538	8,803
PD Hook (Breeders) Ltd	Farm recharges	55	31	19	-
PD Hook (Rearing) Ltd	Sundry	(1)	4	25	3
PD Hook (Turkeys) Ltd	Day old poultry purchases	3,824	879	-	-
Amber Real Estate Investments Ltd	Broiler farm rental	32,883	2,344	23,361	596
2 Sisters Food Group Ltd	Sundry	1,301	-	844	1
2 Sisters Food Poultry Ltd	Sundry	5	-	6	1
2 Agriculture Limited	Broiler chicken sales/feed	164,509	38,703	130,527	30,192
Letham Poultry T/A 1Stop Halal Ltd	Live Haul Charges	6	-	7	1
Amber Foods Ltd	Waste services	-	2	-	2
Bernard Matthews Foods Ltd	Recharges	2,004	1,257	-	-
		<u>316,155</u>	<u>52,530</u>	<u>258,483</u>	<u>39,983</u>

On the 20 September 2016, Amber Real Estate Investments (Industrial) Limited purchased Bernard Matthews Food Limited from the administrator BMHL Realisations 2016 Ltd. On 24 February 2017, the Company acquired all of the turkey growing assets and stock from Bernard Matthews Foods Limited for £14,920,000.

In addition, note 15 sets out the loans payable to related parties as at 31 July 2017.

### 25 Ultimate parent company and parent company of larger group

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 group in which the results of the Company are consolidated is that headed by PD HOOK (Group) Limited and Boparan Holdings Limited respectively, both are incorporated in United Kingdom. The consolidated financial statements of these groups are available to the public and are available from Companies House.