**Pork Farms Caspian Limited**

# Annual report and financial statements

Registered number 09104836

39 weeks ended 28 March 2015

# Contents

# Strategic report

## Principal activity

The principal activity of the company is the manufacture of chilled savoury pastry for the retail, impulse and foodservice markets, in both branded and retailer branded products.

## Incorporation and business acquisition

The company was incorporated on 26th June 2014.

On 17 August 2014, the company acquired the trade and certain assets of Kerry Foods Limited's two chilled savoury pastry manufacturing sites for £21,167,000 in loan stock.

Due to the size of the market in some products manufactured by Pork Farms Caspian Limited and its fellow subsidiary Pork Farms Ltd, the Competition and Mergers Authority (CMA) issued an initial enforcement order on 21 August 2014. This required that except with the prior written consent of the CMA, Vision Capital and the group should not take any action that might prejudice a reference of the transaction under section 22 of the Enterprise Act 2002 or impede the CMA taking any action under the Act. The CMA concluded on 21 June 2015 that there was no lessening of competition and the enforcement order was lifted.

## Business model

The company operates in four key chilled savoury snack markets; hot pie, cold pie, rolls and snacking.

Ingredient prices are often driven by commodity markets, but are monitored and where appropriate the company takes steps to fix costs.

The manufacturing process is under constant review and where appropriate the business invests in capital projects to improve processes and reduce its cost base.

## Business review and results

During the period ended 28 March 2015, the company improved productivity, through investment in the business.

Revenues for the period totalled £69.9m. The company's operating loss was £1.7m after net exceptional costs of £0.5m. Pre-exceptional earnings before interest, tax, depreciation and amortisation were £0.0m. Loss after tax was £3.1m.

The company's net current assets at the period end were £10.5m.

At 28 March 2015, net liabilities were £3.1m. The directors do not recommend the payment of a dividend.

The company continues to enjoy the full support of its employees, its finance provider, PNC Financial Services UK Ltd, and its principal equity and loan stock providers, investment funds advised by Vision Capital LLP. The company's retail banking facilities continue to be provided by Lloyds Bank plc.

## Key performance indicators

Management review the following key performance indicators on a monthly basis. Turnover continues to improve but operating margins are under pressure from customer demands and cost inflation.

| | **2015** |
|---|---|
| Turnover | **£69.9m** |
| Sales per employee | **£57.5k** |
| Operating margin before exceptional items | **(1.7)%** |
| EBITDA before exceptional items | **£0.0m** |
| Debtor days | **47 days** |

## Strategic report *(continued)*

### Principal risks and uncertainties

### Trading environment

The company's main customers are the UK's leading supermarkets and retailers. The strength of these customers, combined with competitive pressure in the industry, represent continuing risks that could result in lost sales to key competitors.

The company seeks to manage the risks presented by its consolidated customer base, and the competitive supply-side environment that characterises the industry, through a strategy of pursuing a competitive high standard of service and quality and a low cost model targeted across a portfolio of categories where it has good market positions.

Sales with supermarkets and consumer demand are inherently uncertain and a fall in demand may result in the company requiring additional funding.

### Financing risk

The company is financed by fixed rate inter-group loans from its parent company and by bank loans. The company is therefore exposed to interest rate risk in respect of its bank loans only.

### Going concern

A going concern forecast has been prepared in accordance with recent guidance issued by the Financial Reporting Council (FRC) "Going concern and Liquidity Risk: Guidance for UK Companies 2009". The directors have set out in the accounting policies, the basis of preparation and appropriate disclosures as to how a positive assessment on going concern has been reached.

### Loan stock – pro forma net assets

As described in note 15, the company has a significant amount of loan stock held by its shareholders. The loan stock is repayable on 13 January 2037.

Accounting standards required this loan stock to be treated as a liability of the company rather than an equity instrument within capital and reserves.

Given the nature of the loan stock, the directors are of the opinion that it would be appropriate to provide a pro forma statement of net assets showing this loan stock as equity as follows:

| | *Note* | **2015** |
|---|---|---|
| | | **£000** |
| Fixed assets | | **13,202** |
| Net current assets | | **10,454** |
| Creditors: amounts falling due after more than one year | *15* | **(26,721)** |
| **Net liabilities from statutory balance sheet** | | **(3,065)** |
| Loan stock | *15* | **22,479** |
| **Net assets on a pro forma basis** | | **19,414** |

## Strategic report *(continued)*

**Corporate responsibility**

The company has identified the following main areas of corporate responsibility, risk and uncertainty, which are reviewed monthly to ensure progress continues to be made.

**Food Safety**

All of the company's sites hold a Grade A* British Retail Consortium Technical Grading and all have been successfully audited by both our customers and their local Trading Standards and Environmental Health bodies. Pork Farms Caspian Limited has in place a central supplier auditing function that approves and monitors all raw material and packaging suppliers in conjunction with the site procurement teams. The company also continues to move its technical standards forward in line with our brand and customer requirements.

**Fair treatment of customers and suppliers**

Pork Farms Caspian Limited's customers expect consistently good quality products that meet all regulatory requirements and have been manufactured to high ethical standards. Pork Farms Caspian Limited aims to deal honestly with customers and suppliers, securing their loyalty and trust by providing outstanding products and service.

**Transparency in all our dealings**

The company will ensure clear and consistent communication with all stakeholders and honour its promises.

**Employee welfare**

Pork Farms Caspian Limited is recognised as a key employer with a workforce that is representative of the communities where the factories are based. The company strives to achieve an environment that encourages mutual respect and teamwork, where personal performance matters and employees are encouraged to develop and reach their full potential.

**Learning and development**

The directors are committed to encouraging the continuous development of all employees with the objective of optimising the overall performance of the business. Training steering groups are present on our sites along with training resources that enable the sites to manage customer and technical requirements to the appropriate standards.

**Health and safety**

Pork Farms Caspian Limited fully recognises and complies with the duties placed upon it under the Health and Safety at Work Act 1974 and all other relevant legislation to ensure a safe and healthy working environment. It also recognises the duty it has not only to staff, but also to customers, visitors and contractors and to any others who may be affected by its activities. The company adopts the principal of zero tolerance with regard to accident prevention. In addition, the company uses "Help Stop Accidents", a computer based training package that all employees undertake within their first three months of employment. This is then assessed on an on-going basis to determine any appropriate further training that may be required in their operating areas.

**Equal opportunities**

The company is committed to equality of opportunity amongst its employees. Recruitment, pay and conditions, training and career development policies are based solely on ability, without regard to gender, race, age, disablement, marital status or religion.

**Employee engagement**

The company uses a variety of methods to enable all of its employees to understand the performance of the company and of their own operating site. These include briefing groups, meetings with employee representatives and company newspapers. Employees are consulted on a wide range of issues affecting their current and future interests, and particularly on changes affecting their company.

## Strategic report *(continued)*

### Community involvement

Pork Farms Caspian Limited has two manufacturing sites in the UK. The company endeavours to be a 'good neighbour' in positively exercising our responsibilities towards the wider community.

Each site has a different involvement in the local community, involving schools via work experience or factory tours, together with sponsoring local events and landmarks.

### Ethical trading

Working in partnership is the key to Pork Farms Caspian Limited's business. The company conducts its business with integrity and respect. Through these relationships, the company aims to provide customer confidence in its products, ensuring they are of a consistently high quality and that everyone in the supply chain is treated with honesty, fairness and respect.

### Environmental responsibility

Pork Farms Caspian Limited is committed to working continuously, in collaboration with its partners and colleagues, to contribute positively to environmental sustainability. The company recognises the importance of its environmental responsibility, monitors its impact on the environment and designs and implements policies to reduce any damage that might be caused by the company's activities. All new product development follows strict criteria to ensure its packaging is sourced, wherever it can be, from recycled streams.

### Recycling

Where possible, food waste is used as bio fuel in preference to landfill. Additionally, plastic and cardboard containers are recycled.

### Future developments

The company will continue to grow volume and profitability through innovation, customer service, product quality and continued investment in its assets.

Signed on behalf of the board

Graham Rutter

Graham Rutter
*Secretary*
23 December 2015

Queens Drive
Nottingham
NG2 1LU

# Directors' report

The directors present their directors' report and financial statements for the 39 weeks ended 28 March 2015.

**Directors**

The directors who held office during the period were as follows:
Christopher Peters *(appointed 17 Aug 2014)*
Graham Rutter *(appointed 26 June 2014)*
Gareth Voyle *(appointed 17 Aug 2014)*
Kenneth McGill *(appointed 17 Aug 2014)*
Mark Hodson *(appointed 7 Nov 2014)*

**Political contributions**

The company made no political donations or incurred any political expenditure during the period.

**Walker report**

This report has been prepared in the context of recommendations made in the Walker Report "Guidelines for Disclosure and Transparency in Private Equity".

**Disclosure of information to auditor**

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

**Other information**

The following information has been included in the Strategic Report on page 1:

- Events which have occurred since the end of the financial period
- Future developments
- Employee consultation

**Auditor**

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

By order of the board

Graham Rutter

Graham Rutter
*Secretary*
23 December 2015

Queens Drive
Nottingham
NG2 1LU

## Statement of directors' responsibilities in respect of the strategic report, the 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 company's 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 for that period.

In preparing the company's 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

KPMG

KPMG LLP
*1 The Embankment*
*Neville Street*
*Leeds*
*LS1 4DW*
*United Kingdom*

# Independent auditor's report to the members of Pork Farms Caspian Limited

We have audited the financial statements of Pork Farms Caspian Limited for the period ended 28 March 2015 set out on pages 9 to 25. 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 6, 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 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 Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate

**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 28 March 2015 and of its loss for the period 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 Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

## Independent auditor's report to the members of Pork Farms Caspian 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.

David Morritt (Senior Statutory Auditor)
**for and on behalf of KPMG LLP, Statutory Auditor**
Chartered Accountants
KPMG LLP
1 The Embankment
Neville Street
Leeds
LS1 4DW

23 December 2015

## Profit and Loss Account

***for the 39 week period ended 28 March 2015***

| | Note | 39 week period ended 28 March 2015 Before exceptional items £000 | Exceptional items (see note 3) £000 | Total £000 |
|---|---|---|---|---|
| **Turnover** | | 69,865 | - | 69,865 |
| Cost of sales | | (56,183) | (490) | (56,673) |
| **Gross profit** | | 13,682 | (490) | 13,192 |
| Distribution costs | | (4,210) | - | (4,210) |
| Administrative expenses | | (10,674) | (21) | (10,695) |
| **Operating loss** | | (1,202) | (511) | (1,713) |
| Interest receivable and similar income | *7* | 237 | - | 237 |
| Interest payable and similar charges | *8* | (1,589) | - | (1,589) |
| **Loss on ordinary activities before taxation** | *4* | (2,554) | (511) | (3,065) |
| Tax on loss on ordinary activities | *9* | - | - | - |
| **Loss for the financial period** | | (2,554) | (511) | (3,065) |

All of the activities during the period relate to continuing operations, which were all acquired during the period.

There is no other comprehensive income for the period other than the profit for the period as shown above.

Notes on pages 13 to 25 form part of these financial statements.

# Balance Sheet
*at 28 March 2015*

| | *Note* | **2015** |
|---|---|---|
| | | **£000** |
| **Fixed assets** | | |
| Intangible assets | 10 | **(478)** |
| Tangible assets | *11* | **13,680** |
| | | **13,202** |
| **Current assets** | | |
| Stocks | *12* | **3,635** |
| Debtors | *13* | **19,439** |
| Cash at bank and in hand | | **11,222** |
| | | **34,296** |
| **Creditors:** amounts falling due within one year | *14* | **(23,842)** |
| **Net current assets** | | **10,454** |
| **Total assets less current liabilities** | | **23,656** |
| **Creditors:** amounts falling due after more than one year | *15* | **(26,721)** |
| **Net liabilities** | | **(3,065)** |
| **Capital and reserves** | | |
| Called up share capital | *17* | **-** |
| Profit and loss account | | **(3,065)** |
| **Shareholders' deficit** | | **(3,065)** |

Notes on pages 13 to 25 form part of these financial statements.

These financial statements were approved by the board of directors on 23 December 2015 and were signed on its behalf by:

**Christopher Peters**
*Director*

# Statement of Changes in Equity
*for the 32 week period ended 28 March 2015*

| | Called-up share capital £000 | Profit and loss account £000 | Total equity £000 |
|---|---|---|---|
| Loss | - | (3,065) | (3,065) |
| Other comprehensive income | - | - | - |
| **Total comprehensive income for the period** | **-** | **(3,065)** | **(3,065)** |
| Issue of shares | - | - | - |
| **At 28 March 2015** | **-** | **(3,065)** | **(3,065)** |

Notes on pages 13 to 25 form part of these financial statements.

# Cash Flow Statement
*for the period ended 28 March 2015*

| | 2015 £000 |
|---|---|
| **Cash flows from operating activities** | |
| Operating profit | (1,713) |
| Depreciation and impairment | 1,376 |
| Amortisation | (136) |
| | (473) |
| Increase in stocks | (64) |
| Increase in debtors | (19,097) |
| Decrease in creditors | 19,495 |
| **Net cash from operating activities** | (139) |
| **Cash flows from investing activities** | |
| Interest received | 9 |
| Purchases of tangible fixed assets | (1,190) |
| Acquisition of a business | 2,894 |
| | 1,713 |
| **Cash flows from financing activities** | |
| Proceeds from the issue of share capital | - |
| Proceeds from new bank loans | 10,330 |
| Repayment of bank loans | (486) |
| Interest paid | (196) |
| | 9,648 |
| **Net (decrease)/increase in cash and cash at the end of the period** | 11,222 |

Notes on pages 13 to 25 form part of these financial statements.

# Notes
*(forming part of the financial statements)*

## 1 Accounting policies

Pork Farms Caspian Limited is a company limited by shares, incorporated in the UK. The address of the registered office is Tottle Bakery, Queens Drive, Nottingham, NG2 1LU.

The company's financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' as issued in August 2014. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The company has adopted FRS 102 early, and from its incorporation.

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

***Measurement convention***

The financial statements are prepared on the historical cost basis.

***Going concern***

The directors have considered the FRC document "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies" when preparing the financial statements. These have been prepared on a going concern basis, notwithstanding the loss for the period ended 29 March 2015 and the net liabilities at that date. The directors have taken steps to ensure that they can conclude that the company has adequate resources to continue in business for the foreseeable future and thus that the going concern basis of preparation remains appropriate. The key considerations are summarised below:

- A risk sensitised cash flow forecasting exercise performed for the period from the date of approval of these accounts until the end of March 2017 showed that the company has sufficient funds available to meet its debts as they fall due over that period.
- Based on the cash flow forecasting exercise, no further funding will be required from the ultimate parent company for the forecasted period. Further, the loan stock held by the shareholders has a fixed repayment date of 13 January 2037.
- In August 2014, financing facilities were arranged with PNC Financial Services UK Ltd that secured funding until at least January 2018.
- The company has been successful in securing trade credit and the directors believe cover is now being provided to the company's suppliers by Euler Hermes and Atradius.
- Management reporting includes a forecast cash balance, and this is updated regularly to ensure that the company has visibility of its future cash availability.
- The markets in which the business operates are not considered to be at significant risk due to the current global economic downturn.
- There are not believed to be any contingent liabilities that could result in a significant impact on the business if they were to crystallise.

***Foreign currencies***

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

# Notes *(continued)*

## 1 Accounting policies *(continued)*

***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 entity 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 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:

| | |
|---|---|
| Plant and equipment | 2-10 years |

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.

***Intangible assets, goodwill and negative goodwill***

*Negative Goodwill*

Negative goodwill arising on business combinations in respect of acquisitions is included on the balance sheet immediately below any positive goodwill and released to the profit and loss account in the periods in which the non-monetary assets arising on the same acquisition are recovered. Any excess exceeding the fair value of non-monetary assets acquired shall be recognised in profit or loss in the periods expected to benefit.

*Other intangible assets*

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

*Amortisation*

Goodwill is amortised on a straight-line basis over its useful life. Goodwill has no residual value. The finite useful life of goodwill is estimated to be between 4 and 25 years, based on the life of the assets acquired.

The company reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Goodwill and other intangible assets are tested for impairment in accordance with Section 27 Impairment of assets when there is an indication that goodwill or an intangible asset may be impaired.

## Notes *(continued)*

### 1 Accounting policies *(continued)*

***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 manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

***Employee Benefits***

*Defined contribution plans and other long term employee benefits*

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.

***Provisions***

A provision is recognised in the balance sheet when the entity 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.

***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, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy).

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

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

# Notes *(continued)*

## 1 Accounting policies *(continued)*

***Turnover***

Sales are recognised on despatch of goods.

Turnover consists of sales to third parties net of trade discounts and excluding VAT and sales taxes.

The turnover and profit before tax are attributable to the one principal activity of the company, and is all derived within the UK.

***Taxation***

Tax on the profit or loss for the period 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 period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on timing differences that 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; and differences relating to investments in subsidiaries and associates to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. 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. Goodwill is adjusted by the amount of such deferred 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 is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

***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.

# Notes *(continued)*

## 1 Accounting policies *(continued)*

***Classification of financial instruments issued by the company***

In accordance with FRS 102.22, financial instruments issued by the company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

(b) where the instrument will or may be settled in the entity's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the entity's own equity instruments or is a derivative that will be settled by the entity exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the entity's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

## 2 Acquisitions

On 17 August 2014, the company acquired the trade and assets of two chilled savoury pastry manufacturing sites from Kerry Foods Limited. The following table sets out the fair value of assets acquired and the goodwill arising:

| | Book value of net assets acquired £000 | Fair value adjustments £000 | Fair value of net assets acquired £000 |
|---|---|---|---|
| Tangible fixed assets | 11,614 | 2,252 | 13,866 |
| Stock | 3,203 | 368 | 3,571 |
| Cash | 5,300 | - | 5,300 |
| Creditors | - | (50) | (50) |
| | 20,117 | 2,570 | 22,687 |
| Goodwill | | | (614) |
| | | | 22,073 |
| ***Comprising*** | | | |
| Loan stock consideration | | | 21,167 |
| Cash repayment | | | (1,500) |
| Acquisition costs | | | 2,406 |
| | | | 22,073 |

Certain consideration was provisional at 28 March 2014. After the period end, Kerry Foods Ltd agreed to pay Pork Farms Caspian Ltd £1,500,000 in relation to the stock.

Fair value adjustments were made as follows:

1. Following a review of the market value, the fair value of tangible fixed assets was increased by £2.2m.
2. A review of the net realisable value of stocks resulted in an adjustment of £1.1m.

# Notes *(continued)*

## 3 Exceptional items

The following events during the period gave rise to exceptional items being presented in the profit and loss account as follows:

| | 39 week period ended 28 March 2015 £000 |
|---|---|
| **Cost of sales** | |
| Staff reductions following restructuring | 228 |
| Advice re potential restructuring of acquired sites | 262 |
| **Administrative expenses** | |
| Staff reductions following restructuring | 21 |
| | 511 |

The above items had no taxation effect, as the entity made a loss on ordinary activities before taxation.

## 4 Loss on ordinary activities

| | 39 week period ended 28 March 2015 £000 |
|---|---|
| **Loss on ordinary activities before taxation is stated after charging/(crediting):** | |
| Depreciation and other amounts written off tangible fixed assets | 1,376 |
| Amortisation of negative goodwill | (136) |
| Impairment of stock recognised as an expense | 220 |
| Operating lease rentals: – plant and machinery | 374 |
| – property | - |
| – other assets | 26 |

*Auditor's remuneration:*

| | |
|---|---|
| Audit of these financial statements | 30 |
| Amounts receivable by the auditors and their associates in respect of: | |
| Taxation compliance services | 3 |

## 5 Remuneration of directors

No emoluments were received by the directors of the company.

# Notes *(continued)*

## 6 Staff numbers and costs

The average number of persons employed by the company (including directors) during the period, analysed by category, is detailed below.

| | 39 week period ended 28 March 2015 Number of employees |
|---|---|
| Production | 950 |
| Administration | 266 |
| | 1,216 |

The aggregate payroll costs of these persons were as follows:

| | 39 week period ended 28 March 2015 £000 |
|---|---|
| Wages and salaries | 24,951 |
| Social security costs | 1,395 |
| Contributions to defined contribution plans | 356 |
| | 26,702 |

## 7 Interest receivable and similar income

| | 39 week period ended 28 March 2015 2015 £000 |
|---|---|
| On loans to group undertakings | 228 |
| Other | 9 |
| | 237 |

## 8 Interest payable and similar charges

| | 39 week period ended 28 March 2015 £000 |
|---|---|
| On bank loans and overdrafts | 203 |
| On loans from group undertakings | 1,312 |
| Other | 74 |
| | 1,589 |

# Notes *(continued)*

## 9 Taxation

*Analysis of charge in period*

| | 39 week period ended 28 March 2015 £000 |
|---|---|
| UK corporation tax | - |
| Tax (charge)/credit on loss on ordinary activities | - |

*Factors affecting the tax charge for the current period*

The differences between the current tax charge for the period and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax are explained below.

| | 39 week period ended 28 March 2015 £000 |
|---|---|
| *Current tax reconciliation* | |
| Profit/(loss) on ordinary activities before tax | (3,065) |
| Tax on profit/(loss) before tax at standard UK corporation tax rate of 21% | 644 |
| *Effects of:* | |
| Expenses not deductible for tax purposes | - |
| Income not taxable for tax purposes | (29) |
| Fixed asset timing differences | 296 |
| Creation of tax losses | 377 |
| Total current tax charge (see above) | - |

# Notes *(continued)*

## 10 Intangible fixed assets

| | Negative Goodwill £000 |
|---|---|
| ***Cost*** | |
| Acquisitions through business combinations | 614 |
| At end of period | **614** |
| ***Amortisation*** | |
| Amortisation for the period | 136 |
| At end of period | **136** |
| ***Net book value*** | |
| **At 28 March 2015** | **478** |

Amortisation is recognised in the following line in the profit and loss account:

| | 2015 £000 |
|---|---|
| Administrative expenses | **136** |

## 11 Tangible fixed assets

| | Freehold property £000 | Plant and machinery £000 | Total £000 |
|---|---|---|---|
| ***Cost*** | | | |
| Acquired through business combinations | 6,500 | 7,366 | 13,866 |
| Additions | - | 1,190 | 1,190 |
| At end of period | **6,500** | **8,556** | **15,056** |
| ***Depreciation*** | | | |
| Charge for period | 88 | 1,288 | 1,376 |
| At end of period | **88** | **1,288** | **1,376** |
| ***Net book value*** | | | |
| **At 28 March 2015** | **6,412** | **7,268** | **13,680** |

There were no assets held under finance leases included in the table.

The directors have reviewed the carrying value of tangible fixed assets by reference to value in use calculations and do not consider them to be impaired.

# Notes *(continued)*

## 12 Stocks

| | 2015 |
|---|---|
| | £000 |
| Raw materials and consumables | 3,163 |
| Work in progress | 78 |
| Finished goods and goods for resale | 394 |
| | 3,635 |

## 13 Debtors

| | 2015 |
|---|---|
| | £000 |
| Trade debtors | 14,574 |
| Amounts owed by group undertakings | 399 |
| Other debtors | 1,378 |
| Prepayments and accrued income | 3,088 |
| | 19,439 |

## 14 Creditors: amounts falling due within one year

| | 2015 |
|---|---|
| | £000 |
| Bank loans and overdrafts | 5,602 |
| Trade creditors | 11,395 |
| Other taxes and social security | 542 |
| Other creditors | 1,803 |
| Accruals and deferred income | 4,500 |
| | 23,842 |

Bank loans represent a revolving credit facility and fixed term loans, which are secured by a fixed and floating charge on the company's assets and a charge on the company's shares. These attract interest at between 2% and 3% over Barclays' base rate.

# Notes *(continued)*

## 15 Creditors: amounts falling due after more than one year

| | **2015** |
|---|---|
| | **£000** |
| Bank loans and overdrafts | 4,242 |
| Amounts owed to parent undertaking – loan stock | 22,479 |
| | 26,721 |

Included in the above are the following amounts due after more than five years:

| | |
|---|---|
| Amounts owed to parent undertaking – loan stock | 22,479 |

Bank loans represent fixed term loans that are secured by a fixed and floating charge on the company's assets and a charge on the company's shares. These attract interest at between 2¼ % and 3% over Barclays' base rate.

The loan stock is repayable on 13 January 2037. Loan stock accrues interest at 10% and this is rolled up onto the outstanding loan stock balance at the option of the company.

## 16 Deferred tax asset

There is an unrecognised deferred tax asset of £622,000 that has not been recognised on the basis that future recovery is uncertain.

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. In the budget on 8 July 2015, the Chancellor announced further reductions to 18% by 2020. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 28 March 2015 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

## 17 Called up share capital

| | **2015** | **2015** |
|---|---|---|
| | **No.** | **£** |
| *Allotted, called up and fully paid* | | |
| Ordinary shares of £1 each | 1 | 1 |

The one Ordinary share of £1 each is the subscriber share.

## Notes *(continued)*

### 18 Commitments

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

| | 2015<br>£000 |
|---|---|
| Capital - Plant and machinery | 277 |
| Commodities | 21,650 |

Annual commitments under non-cancellable operating leases are as follows:

| | 2015<br>Land and buildings<br>£000 | Other<br>£000 |
|---|---|---|
| Operating leases which expire: | | |
| Within one year | - | 49 |
| In the second to fifth years inclusive | - | 125 |
| Over five years | - | - |
| | - | 174 |

### 19 Ultimate parent company and parent undertaking of larger group of which the company is a member

The parent company of the smallest and largest group of undertakings for which group financial statements are drawn up and of which the company is a member is Addo Food Group Limited. Copies of Addo Food Group Limited's financial statements can be obtained from Addo Food Group Limited, Queens Drive, Nottingham, NG2 1LU.

Eliot Luxembourg Holdco SARL is the company's ultimate parent undertaking. Copies of Eliot Luxembourg Holdco SARL's financial statements can be obtained from 174 Route de Longwy, L-1940 Luxembourg.

All of the issued share capital of the ultimate parent undertaking is held by funds advised by Vision Capital LLP, which is registered in England and Wales and whose registered offices are at 55 St James's Street, London, SW1A 1LA.

# Notes *(continued)*

## 20 Related party disclosures

Addo Food Group Ltd is disclosed as a related party as the parent company of Pork Farms Caspian Limited.

| | **2015** |
|---|---|
| | **£000** |
| ***Loan stock payable*** | |
| Acquired by Addo Food Group Ltd | **21,167** |
| Interest accrued | **1,312** |
| At end of period | **22,479** |

Interest is rolled up onto the outstanding loan stock balances annually at 31 December, at the option of the company.

Kerry Foods Ltd is disclosed as a related party as shareholders of Pork Farms Caspian Limited's parent company.

During the period, Pork Farms Caspian Limited acquired the trade and certain assets of two manufacturing sites from Kerry Foods Ltd for £21,167,000 of loan stock in Pork Farms Caspian Ltd. Subsequently, Addo Food Group Ltd purchased this loan stock from Kerry Foods Ltd in consideration of which it issued 21,167,000 redeemable preference shares of £0.001 each.

Following the period end, Kerry agreed that a further £1,500,000 would be payable to Pork Farms Caspian as a reduction in the consideration for the trade and assets acquired above. This is included in the balance owed to Kerry below.

| | **2015** |
|---|---|
| | **£000** |
| ***Other transactions with Kerry Foods Limited*** | |
| Sales under transitional arrangements | **28,801** |
| Purchases under transitional arrangements | **20,879** |
| Charges for transitional services arrangement | **503** |
| Balance owed to Kerry Foods at end of period | **1,550** |