



# Europe's leading specialist retail meat packing business

Annual report and  
financial statements 2011



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Hilton Food Group plc, the leading specialist meat packing business supplying major international food retailers in Europe, is pleased to announce its results for the 52 weeks to 1 January 2012.

#### Key strengths

- Strong relationships with major international retailers
- Long track record in quality and service
- Reduced risk business model
- Established supply chain
- High volume, efficient and modern facilities
- Experienced management team
- Profitable, cash generative business
- Potential growth opportunities

#### How we measure our value

- Consistent quality
- Continuous innovation
- Dedicated customer focus
- Competitive pricing
- Food safety assurance
- Full production traceability
- High service levels

## Overview

### Financial highlights

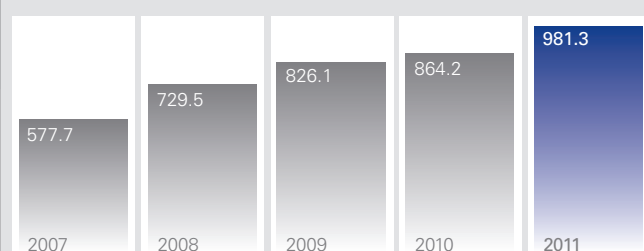
#### Good progress despite difficult economic conditions

Hilton Food Group plc, Europe's leading specialist retail meat business supplying major international food retailers in 12 countries, is today announcing its results for 2011.

#### Revenue

**£981.3m (+13.6%)**

(2010: £864.2 million)



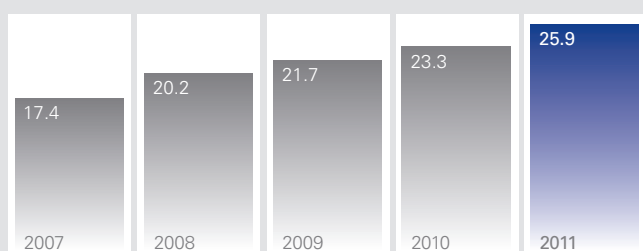
	Western Europe	Central Europe	Total
2011	888.7	92.6	981.3
2010	776.6	87.6	864.2
2009*	755.7	70.4	826.1
2008	679.7	49.8	729.5
2007	551.8	25.9	577.7

\*53 weeks

#### Operating profit

**£25.9m (+11.0%)**

(2010: £23.3 million)



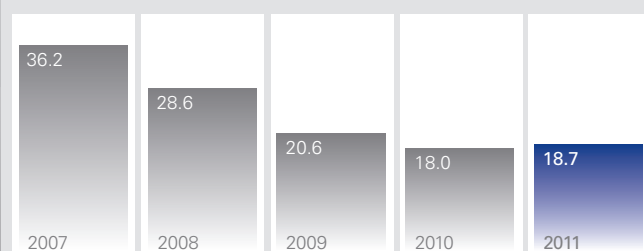
	Western Europe	Central Europe	Total
2011	23.2	2.7	25.9
2010	20.8	2.5	23.3
2009*	19.4	2.3	21.7
2008	18.9	1.3	20.2
2007	16.8	0.6	17.4

\*53 weeks

#### Closing net debt

**£18.7m (+3.7%)**

(2010: £18.0 million)



	Total
2011	18.7
2010	18.0
2009	20.6
2008	28.6
2007	36.2

## Overview

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# 1

### **Good progress despite continuing difficult economic conditions**

Hilton Food Group plc, Europe's leading specialist retail meat packing business supplying major international food retailers in twelve countries, announces its results for 2011.





## Where we operate



### United Kingdom

Commenced Production

**1994**

Location: Huntingdon  
Customer: Tesco UK

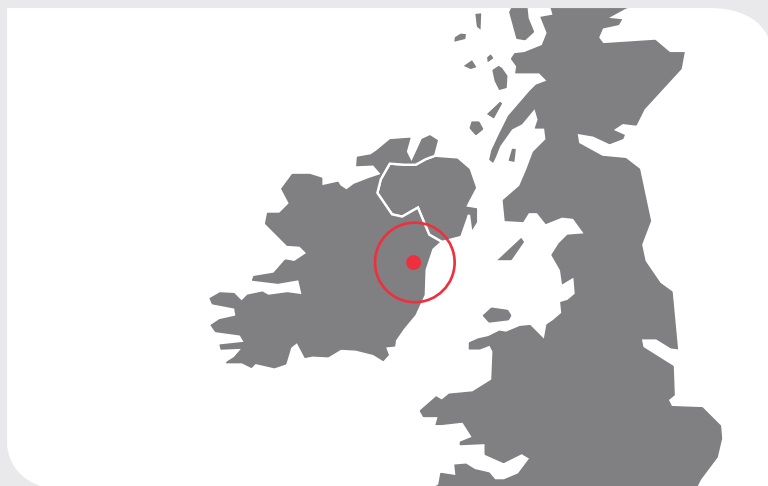


### Netherlands

Commenced Production

**2000**

Location: Zaandam  
Customer: Albert Heijn



### Ireland

Commenced Production

**2004**

Location: Drogheda  
Customer: Tesco Ireland





## Sweden

Commenced Production

# 2004

Location: Vasteras  
Customer: ICA



## Central Europe

Commenced Production

# 2006

Location: Tychy Poland  
Customers: Ahold Central Europe, Rimi Baltics,  
Tesco Central Europe



## Denmark

Commenced Production

# 2011

Location: Aarhus  
Customer: Coop Denmark





## Chairman's statement

### Delivering against our strategy



Our strategy is designed to improve and grow our business on a sustainable and consistent basis, to deliver long term value for both our retail partners and shareholders. The Group now supplies customers in twelve countries across Europe. It has achieved continuing progress during 2011, despite the impact of higher raw material meat prices on consumer spending. The Group has also continued to generate the levels of cash flow required to maintain high levels of investment, enabling it to drive efficiencies and extend capacities to underpin its future growth, whilst being able both to maintain a strong balance sheet and a dependable progressive dividend policy for its shareholders.

**Sir David Naish DL**  
Non-Executive Chairman



## Summary of Group results

In 2011 volumes of meat packed for Hilton's customers increased by 6%, with revenue rising by 14% to £981.3m. Revenue growth reflected the start-up of our new business in Denmark and comparatively strong economic conditions in Sweden and Central Europe.

Profit before taxation rose by over 10%, from £22.2m to £24.5m. Interest cover was 19 times (2010: 21 times). Basic earnings per share were 24.7p in 2011 (2010: 22.6p), the increase of over 9% reflecting the increased operating profit, slightly higher interest costs and an unchanged effective rate of taxation.

Cash generated from operating activities in 2011 was £41.7m (2010: £34.1m). Net year-end borrowings rose by less than 4% to £18.7m, compared with £18.0m at the end of 2010, despite £25.2m of capital expenditure, including £14.6m on the new facilities in Denmark. This level of cash generation enables us to continuously improve and develop our facilities, whilst being able to finance competitive geographical, service and product range expansion. Capital expenditure during the year included continued investment at all our existing sites, designed to drive efficiency gains, to take advantage of available advances in packing technology and to facilitate continued volume growth, in line with our customers' plans.

The Group's results are considered in greater detail in the Chief Executive's summary and the Financial review sections on pages 12 to 19.

## Management and employees

I would like to pay a particular tribute to our people. Hilton operates a decentralised business model, with strong, largely self-sufficient, management teams in place in each country, which we consider to be important so that we can ensure very close working relationships with and rapid pro-active support for our customers. Throughout 2011 our 2,181 full time employees in six separate country business units displayed a continuing high level of dedication, conviction and professionalism. The Board fully understands and appreciates just how much our progress relies on their effort, personal commitment, enthusiasm, enterprise and initiative and I would like to take this opportunity, on behalf of the Board, to personally thank all our employees across Europe both for their hard work during 2011 and their continuing commitment to the Group's ongoing growth and development.

## Our Board

We have a traditional governance structure with a separate Non-Executive Chairman and Chief Executive, under which the Chief Executive Robert Watson runs the Group's businesses, whilst I oversee the functioning of the Board.

After a long and distinguished career with Hilton, Colin Patten intends to stand down from his Board role in due course and will not be seeking re-election at the forthcoming Annual General Meeting. Colin will be available to assist the Group to achieve an orderly transition and at the end of that period will be leaving to pursue his family and private business interests. We would like to thank Colin for his tremendous contribution to the Group over many years and to wish him all the very best in his retirement.

The Board continues to benefit from a wide range of skills and depth of practical experience, that is made available to closely support our management teams across Europe. I would like to take this opportunity to thank my colleagues on the Board for their wise counsel and continued enthusiasm, dedication and support.

## Chairman's statement

### continued

#### Dividend policy

The Board recognises the importance of dividend payments to shareholders and we aim to maintain a dividend policy that provides a dividend level that grows broadly in line with the underlying earnings of the Group. I am pleased to report that the Board has recommended a final dividend of 8.0p per ordinary share in respect of 2011. This, together with the interim dividend of 3.1p per ordinary share paid in December 2011, represents a 8.8% increase in the full year dividend, as compared with last year. The final dividend, if approved by shareholders, will be paid on 29 June 2012 to shareholders on the register on 1 June 2012 and the shares will be ex dividend on 30 May 2012.

#### Our strategy

Hilton has a simple, clear and well defined strategy focusing on the following four key elements:

- Building volumes with and extending product ranges for existing customers;
- Partnering with existing customers in new territories;
- Gaining new customers in new territories; and
- Maintaining an uncompromising focus on unit costs, quality and product development.

We will continue to pursue progressive geographical expansion, whilst very actively developing, enriching and expanding the scope of our existing business partnerships. 2011 saw the start-up of Hilton's new business in Denmark and the Group continued in every country to drive forward new product initiatives, whilst maintaining a constant and rigorous focus on reducing unit packing costs and improving operational efficiencies. This enables us to play a full and proactive role in strongly supporting our customers and the development of their brands.

#### Geographical reach

Twelve years ago all our sales were made within the UK, but today 74% of our revenue is now earned outside the United Kingdom, with 77% of our total volume of meat packed outside the UK, in Northern and Central European countries. These percentages have risen continuously over the last decade, reflecting Hilton's growing international reputation and footprint. The broad spread of the Group's businesses across Continental Europe serves to reduce Hilton's dependence on the fortunes of any one European economy, during these less certain economic times and continued geographic expansion, as opportunities arise, remains a key element in Hilton's strategic approach.

The Group also has relationships with suppliers of high quality meat around the world, sourcing product from over 40 different suppliers. This gives Hilton a high degree of flexibility and our customers the knowledge that Hilton can secure supply at competitive rates.

## 2012 Outlook

The Group's past growth has been achieved through a combination of carefully considered geographical expansion, together with the achievement of continuing progress within each country in which it operates. Currently, short term economic trends across Europe are very difficult to forecast, but the Group's business model has proved resilient and we remain well placed to benefit from any improvements in economic conditions when these eventually come through.

In 2012 we expect similar trading conditions, featuring comparatively high prices for meat and other commodities and constrained consumer spending. The Board considers, however, that Hilton is well placed to deliver continued growth and meet the Board's expectations for 2012.

### Sir David Naish DL

Non-Executive Chairman  
28 March 2012



## Group business review

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# 2

During 2011 Hilton has delivered a good performance continuing to demonstrate the resilience of the Group's business model. Revenue growth was strong in 2011 and further success was achieved with new product and packaging initiatives. We have been able to maintain a high level of investment in our modern meat packing facilities across Europe, designed to keep them at state of the art levels.





## Chief Executive's summary

### Continued investment in sustainable growth



Good results and especially those achieved in difficult trading conditions are not achieved by chance. They represent both a credit to the efforts our managers and employees and are a direct reflection both of the continued success of our long term retail partners, over a difficult and uncertain economic period, and our continued investment in top class operating facilities.

We aim to be the best specialist meat packing company in Europe and 2011 has seen another successful year for the Hilton Food Group, over which it has achieved continuing profitable growth, building on the solid progress achieved over previous years.

In terms both of sales and profit growth, our performance has remained robust. We have continued to invest to improve the operational efficiency of our packing plants, expand and develop our product ranges and put in place the required capacity for anticipated future growth. In Denmark our new meat packing facility commenced production in late March 2011, with volumes subsequently building up in line with our plans and expectations.

**Robert Watson OBE**  
Chief Executive



## Performance by business segment

Our business comprises two distinct business segments:

### Western Europe

**Operating profit of £23.2m (2010: £20.8m) on turnover of £888.7m (2010: £776.6m)**

Western Europe covers the Group's businesses in the UK, Ireland, Holland, Sweden and Denmark. Volume growth was 6.5%, with turnover growth of 14.4% representing significant progress in this segment. This reflected the new business start-up in Denmark and the recovery of higher raw material prices, partly offset by the effect of reduced consumer demand in the face of those higher raw material meat prices.

The new facility for Denmark commenced production in late March 2011 with volumes building up in line with our expectations. The investment in the robotic store order picking facility for Coop Danmark A/S is well advanced, with the start-up of operations scheduled for the second quarter of 2012.

### Central Europe

**Operating profit of £2.7m (2010: £2.5m) on turnover of £92.6m (2010: £87.6m)**

Central Europe comprises the Group's meat packing business supplying three customers across Central Europe from its meat packing plant at Tychy in southern Poland. Volume growth of 4.0% was achieved in 2011, with turnover growth of 5.7%. This business supplies Ahold stores in Czech Republic and Slovakia, Tesco stores in Hungary, Czech Republic, Poland and Slovakia and Rimi stores in Latvia, Lithuania and Estonia.

Volume growth in this multi-customer business remains the key to achieving the very low levels of unit packing costs, which are an essential requirement for our customers to be able to compete strongly and grow in these very competitive developing markets.

## Continued investment to drive efficiency

For us to succeed our customers need to view us as being at the forefront of the meat packing industry and as a committed partner with an established record of delivering value through innovative products and services, whilst relentlessly driving further efficiencies. Hilton aims to be "State of the Art" in every area of its business and its modern, well invested, facilities are considered a key factor in keeping unit packing costs as low as possible.

We constantly look for new and better ways of doing things and harnessing continuing advances in packing technology and robotic storage solutions enables us to increase volumes of meat which can be packed within a given factory footprint, thereby increasing asset utilisation. Hilton looks to build a business with strong longer-term prospects by being able to operate its packing plants at highest achievable levels of volumetric utilisation, whilst continuously improving product quality, presentation and yields. Over the eight years to December 2011, we have invested continuously, with capital expenditure on the Group's packing and storage facilities totalling over £140m.

## Our retail partners

Our customer base comprises only successful blue chip multiple retailers and understanding our customers' needs and those of their consumers drives all that we do. The Group's growth has been generated historically by its strong long term relationships with its retail partners, with whom the Group continues to work very closely to deliver high service levels, consistent and dependable product quality, product innovation and reliable levels of food safety and product integrity assurance. These partnerships, combined with our customers' success have enabled the Group to continue to increase volumes whilst maintaining an unrelenting focus on reducing unit packing costs, which is essential for our customers who need competitive prices. The strength of these long term partnerships has been a key driver of our growth since the Group was formed and will continue to underpin the Group's strategy.

## Chief Executive's summary

### continued

#### Our people

I have always been impressed by the passion and commitment of our people and our dedicated and hard-working employees have once again made a major contribution to Hilton's continued progress, against a difficult and uncertain economic backdrop. I would like to personally thank them for their hard work, loyalty, dedication and professionalism.

Hilton is very much a people oriented business and we are committed to attracting, retaining and developing the best available talent pool to drive our future growth, whilst providing staff with an inclusive working culture in which everyone feels valued and respected and works together across the businesses and functions as one team. The Group's businesses operate on the basis of providing very high customer service levels, with the individual performance of our employees on an every-day basis being vital to their delivery.

The quality and depth of our management teams and workforces is a key driver of our successful growth and development, and we continue to increase the extent to which they routinely share best practice on a structured basis across the Group, in order to learn from each other, so as to be able to deliver the best achievable outcomes for all our customers. I would also like to welcome all of the new employees that became part of the Hilton Food Group in 2011.

#### Diversity

We recognise the benefits of diversity throughout the business, including gender diversity, and we employ a significant number of female senior managers across the group, importantly, in some key operational areas.

#### Product and packaging innovation

Developing new products will always be one of the keys to success in any business and driving continuing innovation remains core to Hilton's strategic approach, both in terms of new product development and the range of services we offer to our customers. The broadening of our product ranges, together with continued innovation, is required both to ensure we can meet changing consumer needs and to adapt our businesses to reduce costs and increase efficiencies and capacities.





Our product teams at each site are continuously involved in a wide range of new product and packaging developments, which, together with extending and adapting the ranges of products packed for our customers, can serve to further increase the volumetric utilisation of these packing facilities, thus achieving lower unit packing costs for our customers.

### Our strategy

Hilton has a clear, simple and well defined strategy, with its principal objectives being strongly to support its customers' brands and their development in their local markets, whilst achieving attractive and sustainable rates of growth and returns for its shareholders.

This approach which we have pursued rigorously since the Group's inception has generated both continuing strong sales and profit growth over an extended period and laid sound foundations for our future growth. We have a proven business model which will enable us to take advantage of any new growth opportunities which may emerge.

### Robert Watson OBE

Chief Executive  
28 March 2012



## Financial review

### Soundly based finances



Hilton Food Group delivered another strong trading performance in the 52 weeks ending 1 January 2012, despite the difficult economic conditions prevailing in some of the countries in which it operates. This Financial review covers the main highlights of the Group's financial performance and position in 2011, together with the key features of the Group's treasury risk management policies, as well as certain required cautionary statements.

**Nigel Majewski**

Finance Director

## Basis of preparation

The Group is presenting its results for the 52 week period ended 1 January 2012, with comparative information for the 52 week period ended 2 January 2011. The financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

## 2011 Financial performance

### Revenue

Volumes grew overall by 6.0% and further details of volume growth by business segment are set out in the Chief Executive's summary. Turnover rose by 13.6% to £981.3m, as compared to £864.2m in 2010, with 8.0% of the increase being attributable to new business start-up in Denmark. The volume increase is below the level of revenue gains, reflecting continuing pressure on consumer spending, in the face of the higher raw material meat prices.

### Operating profit and margin

Operating profit, at £25.9m was 11.0% above the operating profit of £23.3m made in 2010. The operating profit margin in 2011 was 2.6%, as compared with 2.7% in 2010, reflecting the impact of higher raw material meat prices, which were recovered in selling prices, but do not under all our pricing arrangements give rise to a corresponding margin gain. Operating profit per kilogram of packed meat sold improved from 11.8p in 2010 to 12.4p in 2011.

### Finance costs

Net finance costs increased from £1.1m to £1.4m, reflecting the borrowings made to finance the investment in Denmark. Overall interest costs have, however, remained low, reflecting the continuing low United Kingdom LIBOR rate levels seen over 2011, which determine the interest rates on the Group's main sterling borrowings.

### Profit before taxation

Profit before taxation, at £24.5m, was £2.3m (10.4%) higher than in 2010 (£22.2m), reflecting the operating profit improvement of £2.6m less the increase in finance costs of £0.3m detailed above.

### Taxation

The taxation charge for the period was £5.9m (2010: £5.3m). This represented an effective taxation rate of 24%, in line with that of the previous year.

### Earnings per share

Basic earnings per share were 24.7p (2010: 22.6p) an increase of 9.3%, reflecting the increased level of profit before taxation with an unchanged effective taxation rate. Diluted earnings per share increased by 8.5%, from 22.4p to 24.3p.

### Free cash flow and net borrowing levels

Cash flow continued to be strong in 2011, with the Group generating £6.8m of free cash flow before dividends and financing, despite capital expenditure of £25.2m of which £14.6m was incurred on our new Danish facilities. The underlying free cash flow, excluding the new Danish investment, was £21.4m (2010: £19.3m). This has enabled the Group to keep its borrowings close to last year's level, despite the continued investment in geographical expansion. Group borrowings, net of cash balances of £27.3m, stood at £18.7m at the end of 2011. Interest cover in 2011 was 19 times, as compared with 21 times in 2010. Our gearing ratio, represented by net debt divided by earnings before interest, tax, depreciation and amortisation, reduced to 0.4 times EBITDA (as compared to 0.5 times in 2010), with increased profitability and only a slightly higher year end net debt level. At the end of 2011 the Group had undrawn overdraft and loan facilities of £19.8m (2010: £21.7m).

## Financial review

### continued

### Business performance measurement

We have a strong vision and robust values for the business. We support these with a wide range of financial and non-financial Key Performance Indicators "KPI's", chosen by and reported to the Board each month, to measure progress we have made in building shareholder value and achieving the Group's strategic objectives. Our performance against the ten "KPI's" used by the Board for this purpose over the last two years is set out below:

### Financial KPIs

**Revenue growth** 13.6%  
(%)  
2010:4.6%

**Definition, method of calculation and analysis**

Year on year revenue growth expressed as a percentage. The increase was well above the level of volume growth in 2011, reflecting the recovery of higher raw material meat prices over the year and the new business start up in Denmark.

**Operating profit margin** 2.6%  
(% turnover)  
2010:2.7%

**Definition, method of calculation and analysis**

Operating profit expressed as a percentage of turnover. The slight reduction in 2011 reflected the higher level of raw material meat prices which, whilst recovered, do not in all Hilton's contracts feed directly through to correspondingly increased margins.

**Operating profit margin** 12.4  
(pence per kilogram)  
2010:11.8

**Definition, method of calculation and analysis**

Operating profit per kilogram sold.

**Earnings before interest, taxation depreciation and amortisation (EBITDA)** 42.9  
(£m)  
2010:37.2

**Definition, method of calculation and analysis**

Operating profit before depreciation, amortisation and government capital grants. The improvement in 2011 reflects the growth in operating profit and an increased depreciation charge with the Danish investment recovered in revenue.

**Free cash flow before minorities** 6.8  
(£m)  
2010:9.9

**Definition, method of calculation and analysis**

Cash flow before dividends and financing. The decrease in 2011 reflected the capital expenditure of £14.6m on the new facilities in Denmark, as compared with £9.4m in 2010. Excluding this expenditure on geographical expansion, underlying free cash flow improved, from £19.3m to £21.4m.

**Gearing ratio** 0.4  
2010:0.5

**Definition, method of calculation and analysis**

Year-end net debt divided by EBITDA. The gearing ratio improved in 2011, with higher operating profit and only a small increase in the net debt level.

### Non-financial KPIs

**Growth in volume of packed meat sales** 6.0%  
(%)  
2010:7.8%

**Definition, method of calculation and analysis**

Year on year volume growth, expressed as a percentage. The 2011 growth is driven by the start-up of the new business in Denmark. Excluding this factor, volumes declined slightly, with weaker consumer demand in the face of higher raw material meat prices.

**Employee and labour agency costs** 40.0  
(pence per kilogram)  
2010:39.3

**Definition, method of calculation and analysis**

Employment costs per kilogram of packed meat products sold. These rose in 2011 with higher labour levels in Denmark over the start-up period and higher than average wage costs in Denmark.

**Customer service level** 98.4%  
(%)  
2010:98.9%

**Definition, method of calculation and analysis**

Packs of meat delivered as a % of the orders placed. The slight reduction reflects low customer service levels typical in the early start-up months of any new business.

**Number of product lines** 1,900  
2010:1,600

**Definition, method of calculation and analysis**

Breadth of product range, in terms of number of stock keeping units supplied to customers, the increase reflects principally the addition of the new business in Denmark.



## Treasury risk management policies

The Group's policy is structured to ensure adequate financial resources are made available for the continuing development and growth of its business, whilst safely managing the areas of treasury risk below:

### Foreign exchange rate movements and country specific risks

The presentational currency of the Group is sterling, but the majority of its revenues are now earned in other currencies, principally the Euro, Swedish Krona and Danish Krone. The earnings of the Group's overseas subsidiaries are translated into sterling at the average exchange rates for the year and their assets and liabilities at the year-end closing rates. The timing of the repatriation of overseas profits to the UK and the repayment of any intra group loans due to UK holding companies have regard to actual and forecast exchange rates. Changes in relevant currency parities are monitored on a day-to-day basis. The Group has to date decided not to hedge its foreign exchange rate exposures, the impact of which has been broadly favourable overall over recent years, but this policy is kept under continuing review. The Group's overseas subsidiaries all have natural hedges in place as they, for the most part, buy raw materials, employ people, source services, sell products and arrange funding in their local currencies. As a result the Group's exposure is principally limited to its equity investment in each overseas subsidiary.

In these more difficult and uncertain times the level of country specific risk has risen for many businesses, in terms of the impact of macroeconomic developments, including the impact of austerity programmes in countries currently facing difficulties with their levels of debt. The Group sells high quality basic food products, for which there will always be continuing demand, to blue chip multiple retailers in developed countries. Hilton has not to date been materially adversely affected by the recessionary environments experienced over recent times in some countries, but will keep any future identified country specific risks under continuing review.

### Interest rate fluctuation risk

This risk arises from the fact that the interest rates on the Group's borrowings are variable, being at agreed margins over LIBOR for sterling borrowings or EURIBOR for euro borrowings, which fluctuate. The Group's principal borrowing is in sterling, with interest at an agreed margin over LIBOR. The Board's policy is to have an interest rate cap on a proportion of this borrowing and the Group currently has in place a three year cap at 4.5% on 69% of its sterling term loan from Ulster Bank. The Board would review hedging costs and options should the current low interest rate environment change materially.

### Customer credit and pricing risks

As Hilton's customers comprise a small number of very successful and credit worthy major multiple retailers, the level of credit risk is considered to be insignificant. Historically the incidence of bad debts has been immaterial. Hilton's pricing is based predominately either on cost plus agreements or agreed packing rates with its customers.

### Liquidity risk

This is an area which for many businesses represents a material concern, given the continuing difficult economic environment and liquidity constraints across banking systems in Europe which, in the light of current developments, may not resolve themselves rapidly. The Hilton Food Group remains strongly cash generative, has a robust balance sheet and has committed banking facilities for the medium term, sufficient to support its existing business. All bank positions are monitored on a daily basis and capital expenditure above set levels, together with decisions on intra group dividends, are all approved at Board meetings. All long term debt is arranged centrally and is subject to Board approval.

## Key judgements and assumptions

Judgements and assumptions made in the financial statements and incorporated into the accounting policies are continually reviewed, but remain in all material respects consistent with those made in 2010.

## Forward looking statements

The Chairman's statement, the Chief Executive's summary, the Financial review and the Business review together with the other reports which together comprise the Enhanced Business Review on pages 6 to 25 contain forward looking statements that are inevitably subject to risk factors associated with, amongst other things, economic, political and business developments which may occur from time to time across the countries in which the Group operates. It is believed that the expectations reflected in these statements are reasonable, but all forward looking statements and forecasts are inherently predictive, speculative and involve risk and uncertainty, simply because they relate to events and depend on circumstances that will occur in the future.

## Going concern basis

The Group's bank borrowings are detailed in note 19 to the financial statements on page 67 and the principal banking facilities which support the Group's existing and contracted new business are committed, with no renewal required for three years. The Group is in full compliance with all its banking covenants. Future geographical expansion which is not yet contracted, and which is not built into internal budgets and forecasts, may require additional or extended banking facilities and such future geographical expansion will depend on our ability to negotiate appropriate additional or extended facilities in the timescales required.

The Group's internal budgets and forecasts, which incorporate all reasonably foreseeable changes in trading performance, are reviewed in detail by the Board and show that it will be able to operate within its current banking facilities, taking into account available cash balances, for the foreseeable future. The going concern basis is, accordingly, adopted by the Board in preparing the financial statements.

On behalf of the Board

**Nigel Majewski**  
Finance Director  
28 March 2012

## Business review

### Well positioned for future growth

We hope this Annual Report and Accounts, which explains who we are, what services we provide and how we performed in 2011, gives shareholders and other stakeholders the information they require in relation to our company and the steps we are taking to cement our reputation as Europe's leading specialist meat packing company.

This business review covers in turn the key resources and relationships of the business, the main trends and factors considered likely to impact the future development of the Group's businesses and the principal risks and uncertainties which face our businesses, together with the measures we have adopted to minimise and contain these risks.



## The key resources and relationships of the business

The Group aims to safeguard the resources and relationships which are vital to its successful development.

The resources and relationships which we consider are most critical to our business are detailed below:

<b>Long term partnerships with strong retail customers</b>	Our relationships with our customers are critical to our continuing success. Whilst detailed arrangements with customers vary, Hilton has close long term partnership relationships with its multiple retail customers (five of whom are subsidiary or associated companies of the Tesco or Ahold groups), which involve continuous close liaison, discussion and co-ordination, designed to ensure that the best possible outcomes are achieved for both our partners and their customers.
<b>Growing reputation</b>	Hilton's growing reputation, which is a key driver of its growth, has been built on its achieved levels of product quality and presentation, food safety and integrity, product innovation, service levels, health and safety, the way in which it treats its employees and suppliers, the manner in which it operates its facilities and its proven ability to adapt its business model to different customer and country requirements. All of these elements, which are achieved within a culture of safe working and concern for the environment, whilst operating within all applicable local and national regulations, are the responsibility of the operational management teams in each country, supported by specialist central expertise and assistance, as and when required.
<b>Modern, well invested meat packing plants</b>	The Group has well invested modern facilities and has invested over £140m over the last eight years to increase packing capacity, so as to be able to service its customers' growth, whilst ensuring its packing facilities are kept at a state of the art level, both in terms of packing speeds, in order to progressively reduce unit costs and to continuously improve product quality, whilst reducing the environmental impact of the Group's operations.
<b>Employee skill base</b>	Our relationship with our employees is a key factor behind our success and the Group continues to invest in developing its people. In addition to training and mentoring programmes, where additional skills are required, the strategies for retaining key staff include the provision of terms and conditions which are competitive in each locality, together with employer contributions to defined contribution pension schemes.
<b>Wide and flexible meat supply base</b>	Hilton has strong long term trading relationships with its key meat suppliers and is over time steadily widening its supply base and increasing its procurement strength. Supplier relationships are underpinned by fairness, loyalty and a partnership approach which pays regard to the interests of both parties. The Group maintains a wide, diverse and flexible global meat supply base, so as to be able to provide sufficient volume of products on short lead times as ordered by its customers.
<b>Committed banking facilities</b>	The Group is cash generative and has committed banking facilities sufficient to support its existing business for the foreseeable future, taking into account available cash balances.
<b>Focus on the environment, employees and community issues</b>	We work with the local communities in which our facilities are located and fully respect our environmental obligations. Information in relation to these matters and issues are set out in the Corporate and Social Responsibility report on pages 42 to 45. None of these issues had a material impact on the development, performance or position of the Group's businesses in 2011.

## Business review

### continued

#### The main trends and factors likely to impact the future development, performance and position of the group's business

#### The key trends and factors which have affected the Group's growth and development

Hilton's past growth has been accentuated by the consumer trend in most European markets towards convenience and one stop shopping which has led to the rapid growth of the large food retailers, together with these retailers' focus on private label, which the Group supplies exclusively. The consumer search for the best achievable value for money and the apparent increase in the levels of meals being eaten in the home, seen during the recent difficult economic period across Europe, has served to benefit retailer's private label sales.

As the larger retail chains have gained a greater share of the grocery markets, these retail chains are increasingly turning to large scale, centralised meat packing plants capable of producing packed meat products more hygienically and cost efficiently. By moving to larger suppliers of pre-packed meat from the optimum logistical locations the retailers have effectively chosen to rationalise their supply base, so as to deliver lower costs and higher food safety, food integrity and quality standards. This has allowed the retailers to focus on their core business and maximise their return on available retail space.

These trends and factors which have underpinned the past growth of the Group's business are expected to continue, albeit that the pace of recovery from the recent economic recessions in each of the 12 markets in which the Group currently operates cannot be predicted with any certainty.

#### The Group's historical geographical expansion

Hilton's past expansion has been based on its established track record, together with its growing international reputation and experience and the close partnerships for joint benefit it has established and maintained with successful retail partners.

The six European countries in which the Group currently operates meat packing plants, its retail partners served from those plants (all of whom, with the exception of Coop Danmark, are subsidiary or associated companies of the Tesco or Ahold groups) and the chronological order in which each facility commenced operations is set out below:

1994	UK – Huntingdon (Tesco)
2000	Holland – Zaandam (Albert Heijn)
2004	Ireland – Drogheda (Tesco)
2004	Sweden – Vasteras (ICA)
2006	Poland – Tychy (Ahold, Tesco and Rimi)
2011	Denmark – Hasselager (Coop Danmark)

The Group is continuing to achieve growth in all these countries, driven by its retail partners' success, new product and packaging development and the extension of the range of meat products packed for its customers.

#### Risk management

The management of the business and the execution of the Group's strategy are subject to a number of risks and the Group has a well-developed structure and range of processes for identifying and mitigating the key business risks it faces.

As with any business, there are risks and uncertainties inherent in the Group's operations which could have a significant impact on its business, reputation, operating results and financial position, which we manage, in order to help us achieve our strategic objectives and protect our reputation.

The most significant business risks faced, which are unchanged from last year and which will continue to affect the group's businesses, together with the measures we have adopted to mitigate these risks, are outlined in the table below. This is not intended to constitute an exhaustive analysis of all risks faced by the Group, just those which are most significant from the standpoint of the Group as a whole.



Risk area	The Group is dependent on a small number of customers who can exercise significant buying power and influence.
Potential impact	The Group has a comparatively narrow, but recently extended, customer base, with sales to subsidiary or associated companies of the Tesco and Ahold groups currently comprising the larger part of Hilton's revenue. The large retail chains are continuing to increase their market share of meat products in many countries, as retail customers move away from high street butchers towards one stop convenience shopping in large supermarkets. The continuation of this trend increases the buying power of the Group's customers which in turn increases their negotiating power with the Hilton Food Group, which could enable them to seek better terms over time.
Risk mitigation measures	The Group's investment in state of the art facilities, together with its management's continuous focus on reducing costs, allow it to operate very efficiently at very high throughputs and price its products competitively, which is particularly important in the continuing difficult economic environment. The Group's customer driven business model is focused solely on central meat packing and is unencumbered by the issues and conflicts faced by the majority of the Group's competitors who are also involved in significant upstream processing, including rearing, growing, slaughtering and cutting. Hilton operates a decentralised, entrepreneurial business structure, which enables it to work very closely and flexibly with its retail partner in each country, and achieves high service levels in terms of orders delivered, delivery times, compliance with product specifications and accuracy of documentation, all backed by an uncompromising focus on food safety and product integrity assurance.
Risk area	The Group's growth potential is dependent on the success of its customers and the future growth of their packed meat sales.
Potential impact	All of the Group's products carry the brand labels of the customer to whom its products are supplied. The Group is therefore dependent on its customers' success in maintaining or improving consumer perception of their own brand names and their packed meat offerings.
Risk mitigation measures	The Group plays its full part in enhancing its customer's brand values, through providing high quality, competitively priced products, high service levels and continuing product and packaging innovation. It recognises that quality assurance is integral to its customers' brands and works closely with its customers to ensure rigorous quality assurance standards are met. It is continuously measured by its customers across a very wide range of parameters, including delivery time, product specification and accuracy of documentation and targets high service levels across all these parameters. The Group works closely with its customers to identify continuing improvement opportunities across the supply chain, including enhancing product presentation, extending shelf life and reducing wastage at every stage of the supply chain.

## Business review

### continued

Risk area	The Group's business is dependent on the macroeconomic environment and levels of consumer spending in the countries in which it operates.
Potential impact	No business is immune to difficult economic climates and the consequent pressure on levels of consumer spending seen recently across Europe. Few people could have foreseen a year ago the extent to which world events would impact even the most stable economies.
Risk mitigation measures	With a sound business model, strong retail partners and a single minded focus on minimising unit packing costs, whilst maintaining high levels of product quality and integrity, the Group has made good progress over the recent difficult economic period. It expects to be able to continue to make progress going forward, even if the current difficult economic conditions, as expected, persist for some time.
Risk area	The Group's business is reliant on a small number of key personnel and its ability to manage growth successfully.
Potential impact	The Group is critically dependent on the skills and experience of a small number of senior managers and, as the business develops and expands, the Group's success will inevitably depend on its ability to attract and retain the necessary calibre of personnel for key positions, both for managing its existing businesses and setting up new ones.
Risk mitigation measures	To continue to manage growth successfully, the Group will carefully manage its skill resources and continue to invest in on-the-job training and career development, together with the cost effective management of quality, appropriately scaleable information and control systems, whilst recruiting high quality new employees, as required, to facilitate the Group's ongoing growth. The continuing growth of Hilton's business, together with its growing reputation, facilitates the recruitment of more top class specialists with the key skill sets required both to support our existing individual country business units and manage the Group's future geographical expansion.
Risk area	The Group's business is dependent on maintaining a wide and flexible global meat supply base.
Potential impact	The Group is reliant on its suppliers to provide sufficient volume of products in the very short lead times required by its customers. The Group sources certain of its meat requirements from outside the European Union. Tariffs, quotas or trade barriers imposed by countries where the group procures meat, or which they may impose in the future, together with the progress of World Trade Organisation talks and other global trade developments, could materially affect the Group's international procurement ability.
Risk mitigation measures	The Group maintains a flexible global meat supply base, which is progressively widening as it expands, so as to have in place a range of options should any such eventualities occur.

<b>Risk area</b>	<b>Outbreaks of disease and feed contamination affecting livestock and media concerns can impact the Group's sales.</b>
<b>Potential impact</b>	Reports in the public domain concerning the risks of consuming meat can cause consumer demand for meat to drop significantly in the short to medium term. A food scare similar to the Bovine Spongiform Encephalopathy ("BSE") scare that took place in 1996 can affect public confidence in red meats.
<b>Risk mitigation measures</b>	The Group sources its meat from a trusted raw material supply base, all components of which meet stringent European and customer standards. The Group is subject to demanding standards which are independently monitored in every country and reliable product traceability and high welfare standards from the farm to the consumer are integral to the Group's business model. The Group ensures full traceability from source to packed product across all suppliers.

The Board is responsible for the oversight of the Group's risk management processes and also for the appropriate identification of risks and the effective application of actions to mitigate those risks.

The Group is dependent on the quality and effectiveness of its risk management strategy and procedures. All types of risk applicable to the business are regularly reviewed and a formal risk assessment review is carried out to highlight key risks to the business and to consider action that can reasonably and cost effectively be taken to mitigate them. The Group's Risk Register is compiled through a combination of business unit risk registers and Board input. The Board believes that in carrying out the Group's businesses it is vital to strike the right balance between an appropriate and comprehensive control environment and encouraging the level of entrepreneurial freedom of action required to seek out and develop new opportunities, but, however skilfully this balance is struck, the business will always be subject to a number of risks and uncertainties, as illustrated above.

Not all the risks listed are within the Group's control and others may be unknown or currently considered immaterial, but could turn out to be material in the future. The risks set out in the above table, together with our risk mitigation strategies, should be considered in the context of the Group's risk management and internal control framework, details of which are set out in the Corporate Governance statement on pages 38 to 41 and the cautionary statement regarding forward looking statements in the Financial review on page 19.

## Governance

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# 3





## Board of Directors



### Executive Directors

#### 1 Robert Watson OBE Chief Executive

Robert joined the Hilton Food Group as Chief Executive in 2002 and has overseen the rapid growth of the Group over the last nine years. Prior to this, he worked for the Foyle Food Group, based in Northern Ireland of which he was a founder in 1977.



#### 2 Nigel Majewski Finance Director

Nigel joined the Hilton Food Group as Finance Director in 2006. Nigel is a Chartered Accountant who, following 11 years in senior finance roles with PepsiCo between 1995 and 2006 and prior to that five years meat industry experience in senior finance roles with Bernard Matthews plc, brings over 10 years' experience of operating overseas, in five different countries. Nigel is Chairman of the Risk Management Committee.



#### 3 Colin Patten Commercial Director

Colin joined the Hilton Food Group at its inception in 1994 as Commercial Director, responsible for procurement and business development, having worked previously in a similar role for the Group's UK subsidiary Hilton Meats (Retail) Limited and prior to that in meat wholesaling and packing.



#### 4 Philip Heffer UK and Ireland Business Director

Philip joined the Hilton Food Group at its inception in 1994, as Managing Director of the Group's UK subsidiary Hilton Meats (Retail) Limited. In 2004 Philip was appointed to his current role as Managing Director for the Hilton Food Group's UK and Irish businesses. Prior to this, Philip held senior positions within the RWM Food Group.

#### 5 Theo Bergman European Business Director

Theo joined the Hilton Food Group in 2000 as Managing Director of the Group's Dutch subsidiary, Hilton Meats Zaandam BV. In 2003, Theo was appointed European Operations Director responsible for the start up of new operations in Europe. Prior to joining the Hilton Food Group, Theo held senior logistics and general management positions with Ahold between 1987 and 2000.



## Non-Executive Directors

### 6 Sir David Naish DL Non-Executive Chairman

Member of the Remuneration Committee  
Member of the Audit Committee  
Member of the Nomination Committee  
Member of the Related Party  
Supply Committee

Sir David joined the Hilton Food Group in 2007 as a Non-Executive Director after retiring from the Chairmanship of Arla Foods UK plc and was elected Chairman in 2010. He is a past President of the National Farmers Union and is currently Chairman of his family farming business as well as a Director of Wilson Insurance Broking Group Limited and Caunton Engineering Limited and is also a Non-Executive Director of Produce Investments plc. Sir David is Chairman of the Nomination and Related Party Supply Committees.

### 7 Chris Marsh Non-Executive Director

Member of the Remuneration Committee  
Member of the Audit Committee  
Member of the Nomination Committee  
Member of the Related Party  
Supply Committee

Chris joined the Hilton Food Group in 2007 as a Non-Executive Director. Chris is a corporate broker by background, he joined Phillips and Drew in 1968 and headed the Small Cap Corporate broking team at UBS Limited (London) from 1993 until his retirement in 1998. From 1999 to 2004 he was a member of a small corporate finance advisory team at the Benfield Group. Chris is currently Non-Executive Chairman of Framlington AIM VCT 2 PLC and Webb Capital plc. Chris is Chairman of the Remuneration Committee and is the Senior Independent Director.

### 8 Colin Smith OBE Non-Executive Director

Member of the Remuneration Committee  
Member of the Audit Committee  
Member of the Nomination Committee  
Member of the Related Party  
Supply Committee

Colin joined the Hilton Food Group in 2010 as a Non-Executive Director and has extensive experience in the food and distribution industry. A Chartered Accountant, he was at Safeway plc for 20 years as Finance Director and for the last six years as Chief Executive. Colin has previously held Chairmanships at food and agriculture businesses Assured Food Standards, Masstock Group and Blueheath Holdings plc and has been involved with not for profit organisations as a past President of the food industry charity Caravan and a trustee of Save the Children. He is currently chairman of Poundland Group Holdings Limited and was previously a Non-Executive Director of McBride plc. Colin is Chairman of the Audit Committee.

Chris Marsh and Colin Smith are considered to be independent.



## Directors' report

The Directors present their report and the audited consolidated financial statements for the 52 weeks ended 1 January 2012.

### Principal activities, business review and future outlook

The Group's activities comprise specialist retail meat packing for international food retailers in Europe.

The Companies Act 2006 requires the Company to set out, in this report, a fair review of the business of the Group during 2011, including an analysis of the position of the Group at the end of this year and a description of the principal risks and uncertainties facing the Group (which taken together are known as an 'Enhanced Business Review').

The information which comprises the requirement for an Enhanced Business Review can be found in the Chairman's statement on pages 6 to 9, the Chief Executive's summary on pages 12 to 15, the Financial review on pages 16 to 19, the Business review on pages 20 to 25, the Corporate Governance statement on pages 36 to 41 and the Corporate and Social Responsibility report on pages 42 to 45. All the information detailed in these sections (including the KPI information set out on page 18) is incorporated by reference into this report and deemed to form part of it.

### Results and dividends

The profit before taxation is £24.5m (2010: £22.2m). After a taxation charge of £5.9m (2010: £5.3m) and minority interests of £1.4m (2010: £1.2m) the net income for the period is £17.2m (2010: £15.7m).

An interim dividend of 3.1p per ordinary share was paid in December 2011. The Directors recommend the payment of a final dividend for the period, which is not reflected in these accounts, of 8.0p per ordinary share totalling £5.6m, which, together with the interim dividend, represents 11.1p per ordinary share. Subject to approval at the Annual General Meeting, the final dividend will be paid on 29 June 2012 to members on the register at the close of business on 1 June 2012. Shares will be ex dividend on 30 May 2012.

### Financial instruments

The Group's risk management objectives and policy are discussed in the treasury risk management policies section of the Financial review on page 19.

### Directors and their interests

The Directors of the Company in office throughout 2011, together with their biographical details, are as set out on pages 28 and 29. All the Directors served for the whole of the year under review during which there was no change in the composition of the Board. Directors are subject to re-election following the year in which they are appointed and one third of the Board is subject to re-election every year. Colin Patten will not be seeking re-election. Philip Heffer and Sir David Naish retire in accordance with the Articles of Association and, being eligible, offer themselves for re-election. Details of their service contracts are set out on page 35.

The interests of the Directors, as defined by the Companies Act 2006, in the voting rights of the Company were as follows:

	On 1 January 2012 ordinary shares	On 2 January 2011 ordinary shares
R. Watson	<b>3,159,850</b>	3,159,850
C. Patten	<b>4,640,500</b>	4,640,500
P. Heffer	<b>4,174,500</b>	4,174,500
T. Bergman	<b>328,333</b>	328,333
N. Majewski	<b>13,333</b>	13,333
D. Naish	<b>40,000</b>	35,000
C. Marsh	<b>30,000</b>	30,000
C. Smith	<b>30,000</b>	–

All of the above interests are beneficial, with the exception of 1,130,917 shares held by various trusts of which R. Watson is a trustee. Since the year end R. Watson, P. Heffer and N. Majewski each acquired 6,530 shares under Hilton's sharesave scheme. There have been no other changes in the interests of Directors between 1 January 2012 and the date of this report.

### Substantial shareholdings

As at the date of this report, the Company is aware or has been notified of the following interests, in addition to Directors' holdings above, of 3% or more of the voting rights of the Company:

	Number of ordinary shares	Percentage of issued share capital	Nature of holding
G. Heffer	4,174,500	5.95%	Direct
R. Heffer	4,174,500	5.95%	Direct
ABP Foods (formerly Irish Food Processors)	4,096,700	5.84%	Indirect
AXA Investment Managers SA	3,850,000	5.49%	Indirect
Artemis Investment Managers	3,470,000	4.95%	Indirect
F&C Asset Management	3,062,399	4.36%	Indirect
Aviva plc & its subsidiaries	2,365,822	3.37%	Indirect

### Charitable and political donations

During the year the Group made charitable donations for the benefit of local communities in which the Group operates amounting to £19,759 (2010: £27,902). No donations for political purposes were made during the year (2010: £nil).

### Employment policy and involvement

The Group's policy on employees remains one of adopting a very open management style, keeping employees informed of all matters affecting them as employees including key financial and economic factors affecting the Group's performance. This is achieved through meetings, newsletters and informal consultation at all levels. Employees are able to participate directly in the success of the business by contributing to the Group's sharesave scheme.

Employment policies are designed to provide equal opportunities irrespective of employee's nationality, sex, colour, ethnic or natural origin or marital status. Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with the Company can continue. It is the policy of the Group that training, career development and promotion opportunities should be available to all employees.

The Group's recruitment practices involve, where possible, internal promotions. Where there is not a suitable internal candidate, selection of suitable individuals for vacant positions is made using a combination of industry knowledge and contacts and the use of external recruitment agencies. All new senior employees including Directors are given tailored induction programmes. The Group's succession planning is designed to highlight any forthcoming vacancies well in advance.

The Group, in common with most commercial undertakings, employs external consultants, but, as their services could be contracted for with other similar parties, there are, in the opinion of the Board, no persons with contractual or other arrangements with the Group which are essential to its businesses.

### Supplier payment policy

In the UK the Group follows the Better Payment Practice Code. The Code requires a company to agree the terms of payment with its suppliers, to ensure its suppliers are aware of those terms and to abide by them. The Group policy is also to apply the requirements of the Code in each of its European subsidiaries. At the end of 2011 the Group's trade creditors represented 44 days of purchases (2010: 45 days).

### Share capital and control

The following information is given pursuant to Section 992 of the Companies Act 2006:

- The Company has one class of share being ordinary shares of 10p each which have no special rights. The holders of ordinary shares rank equally and are entitled to receive dividends and return of capital as declared and to vote at general meetings. With minor exceptions, there are no restrictions on transfers of ordinary shares.
- There are no restrictions on voting rights of ordinary shares.
- Rights over ordinary shares issued under employee share schemes are exercisable directly by the employees. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of its shares or on voting rights.
- The Company may appoint or remove a Director by an ordinary resolution of the shareholders. Additionally the Board may appoint a Director who must retire from office at the following Annual General Meeting and if eligible then stand for re-election.
- The Company's Articles may be amended by a special resolution of the shareholders.
- The Directors have general powers to manage the business and affairs of the Company. Additionally the following specific authorities were passed as resolutions at the Company's Annual General Meeting held on 25 May 2011:
  - Directors have authority to purchase up to 10% of its own shares subject to certain conditions.
  - Directors have authority, within limits, to exercise the powers of the Company to allot shares and limited authority to disapply shareholder pre-emption rights.

Both these authorities expire on the earlier of the date of the next Annual General Meeting or 25 August 2012.

- The Company has significant customer long term supply agreements which the customer may terminate in the event that ownership of the Company, following a takeover, passes to a third party which is not reasonably acceptable to that customer. There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid.

## Directors' report continued

### Share options

Details of all options granted but not exercised or lapsed are shown in note 23 to the financial statements on page 69.

### Independent auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office and a resolution proposing their reappointment will be submitted at the Annual General Meeting.

### Corporate governance

The Financial Reporting Council issued the UK Corporate Governance Code ("Code") in June 2010 (replacing the previous UK Combined Code of Corporate Governance) which applies to accounting periods beginning on or after 29 June 2010. The Directors consider that the Company has during 2011, being the first year subject to the new Code, complied with the requirements of the UK Corporate Governance Code taking into account the provisions for smaller companies.

Hilton Food Group plc supports the highest standards of corporate governance, business integrity and professionalism in the way it conducts its activities. The Corporate Governance statement on pages 38 to 41 which includes information pursuant to DTR 7.2 and the Remuneration report on pages 34 to 37 detail how the Board applies the principles of good governance and best practice as set out in the UK Corporate Governance Code.

### Directors' statement as to disclosure of information to auditors

The Directors who were members of the Board at the time of approving the Directors' report are listed on pages 28 and 29. Having made enquiries of fellow Directors and the Company's auditors, each of these Directors confirm that:

- to the best of each Director's knowledge and belief, there is no information relevant to the audit of which the Company's auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Annual General Meeting

The Notice convening the Annual General Meeting can be found in the separate Notice of Annual General Meeting accompanying this Annual Report and financial statements, and can also be found on the Company's website at [www.hiltonfoodgroupplc.com/agm](http://www.hiltonfoodgroupplc.com/agm). Shareholders will be invited to approve the Remuneration report set out on pages 34 to 37.

By order of the Board

**Neil George**

Company Secretary

28 March 2012



## Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual report, the Remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. 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 the Group and the profit or loss of the Group for that period.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by the European Union 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 Group 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 which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website [www.hiltonfoodgroupplc.com](http://www.hiltonfoodgroupplc.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Responsibility statement of the Directors in respect of the Annual Report and Accounts

Each of the Directors whose names and functions are set out on pages 28 and 29, confirm that to the best of their knowledge and belief:

- the Group and parent company financial statements, prepared in accordance with applicable UK law and in conformity with IFRS, as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and the Company; and

- the management reports (which comprise the Chairman's statement, the Chief Executive's summary, the Financial review, the Business review and the Directors' report on pages 6 to 32) include a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties they face.

This responsibility statement was approved by the Board of Directors on 28 March 2012 and is signed on its behalf by:

**Robert Watson OBE**  
Chief Executive

**Nigel Majewski**  
Finance Director

## Remuneration report

The Remuneration Committee presents its report which has been adopted by the Board and which shareholders will be asked to approve at the forthcoming Annual General Meeting.

In accordance with the requirements of the Companies Act 2006 and the Listing Rules of the UK Listing Authority the Group is required to prepare a Remuneration report for 2011 and to put that report to a shareholder vote at the forthcoming Annual General Meeting.

The Group's auditors are required to report on part of the Remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 2006. The report has accordingly been divided into separate sections for unaudited and audited information.

### Unaudited information

#### The composition and role of the Remuneration Committee

The Remuneration Committee during 2011 comprised all the Non-Executive Directors being Chris Marsh (Chairman), Sir David Naish and Colin Smith. The Committee invites the Chief Executive, Robert Watson, to participate in its discussions, as appropriate, in an advisory capacity.

The Committee is responsible for determining the individual remuneration packages of the Company's Executive Directors. It is also responsible for considering management recommendations for remuneration and employment terms for the Group's senior staff including arrangements for bonus payments and the grant of share options.

The terms of reference of the Committee are detailed on the Company's website, at [www.hiltonfoodgroupplc.com](http://www.hiltonfoodgroupplc.com).

#### Remuneration policy

The Remuneration Committee considers that the Group's remuneration policies should encourage a strong performance culture and emphasise long term shareholder value creation, with clear links between executive performance targets and the businesses' performance and strategy. The Committee also believes that there should be a clear reward structure which enables the Group to attract, retain and motivate its best talents who have and will continue to be pivotal to Hilton's future progress by:

- positioning base salaries with regard to the performance and responsibilities of the individual concerned, having regard to rates paid for similar roles in comparable companies and the pay structure throughout the Group; and

- operating annual and longer term incentive arrangements which ensure that a substantial proportion of senior employee's remuneration is subject to performance and aligned with the interests of shareholders. A significant proportion of senior employee's remuneration packages comprise performance related elements, including the grant of executive share options and non-discretionary target driven annual bonus schemes. In 2011 performance related elements comprised 28% of the remuneration of the Executive Directors.

The Committee has taken independent advice on these matters from Aon Hewitt who were appointed by the Committee and who provide no other services to the Company. Reviews undertaken to date have included reviews of Executive Director remuneration packages and pension arrangements in comparable businesses.

#### Remuneration packages

When applying these principles to the determination of the remuneration of Executive Directors, the Committee gives consideration to the following components of their total remuneration package:

##### *Base salary and benefits*

Base salary is a fixed cash sum payable monthly in arrears, with salaries reviewed annually on 1 January in each year. With effect from 1 January 2012 base salaries were increased by 5% which is slightly above the average percentage salary increase across the Group generally. Benefits in kind comprise principally the provision of private healthcare and a company car and fuel.

##### *Annual bonus*

The Committee operated a cash bonus scheme for Executive Directors for 2011. This bonus scheme, which does not contain any discretionary elements, was based on achieving the Group budgeted net income target. In setting the targets for the scheme, the Committee considered both the Group's annual budget and the need for continued progress to be achieved by the Group.

For 2011, the target achievement and maximum award levels for target over-achievement were 40% and 80% of base salary, respectively. 40% was paid for achieving the budgeted level of net income plus, subject to a cap of 40%, a further 2% for every 1% by which this target was over achieved. A further 2% bonus was paid in respect of an actual over-achievement of 1%.

The bonus arrangements detailed above were applied to all Executive Directors, as they each contribute individually to the management and development of each of the Group's businesses in six European countries. In the opinion of the Committee the performance of the Executive Directors during 2011 was strong. The profitability measure on which the bonus payments are based is not dependent on any future forecast outcomes, in relation to matters which require judgemental quantification at the balance sheet date in relation to their likely eventual outcomes, and there are no deferred or retention elements.

Under the 2012 bonus scheme Executive Directors will be awarded up to a maximum of 100% of base salary structured as follows:

- 50% subject to achieving the Group budgeted net income target;
- an additional bonus of up to 40% for any over achievement of the Group budgeted net income target with 2% bonus paid for every 1% over achievement subject to a cap; and
- up to 10% based on individual Director's performance against pre-determined targets.

The total all cash bonus is subject to a claw back clause in circumstances of exceptional misstatement or misconduct.

#### *Executive share options*

Grants of executive share options with a maximum value of 100% of basic salary were awarded in 2008, 2009 and 2010. These executive share options are exercisable after three years, subject to the growth in the Group's normalised earnings per share equalling or exceeding the growth in the UK Retail Price Index by an average of 3% per year (9.3% over three years).

The scheme allows for options to be satisfied using new issue shares. There is a 5% of share capital in 10 years limit for discretionary schemes as well as a 10% in 10 years limit in relation to all incentive plans.

With the introduction of the Company's new LTIP, as below, the Committee has no plans to grant further options under this scheme in the foreseeable future although it retains the ability to do so.

#### *Long Term Incentive Plan*

The Committee announced its intention in last year's Annual Report to move to a Long Term Incentive Plan (LTIP). The rules of the Hilton Food Group Long Term Incentive Plan 2012 have been designed and are proposed as an Ordinary Resolution for approval at the Company's Annual General Meeting.

The maximum individual award to any Director or employee is 100% of basic salary per year although in exceptional circumstances the Committee may award up to 200% during a financial year. Awards which will vest after three years will comprise nil cost options subject to a performance condition

and be satisfied by the issue of new shares or transfer of existing shares. The granting of awards will be restricted to ensure that the number of shares allocated in relation to all incentive plans (including share option and sharesave plans) does not exceed 10% over 10 years. An Employee Benefit Trust will be set up in connection with this plan.

The Committee have decided that the performance condition will be based on the Group's compound growth in earnings per share over three years which is considered to be the most appropriate metric for an international business. Awards vest on a sliding scale with 25% of the maximum award applied at the minimum EPS growth target of 6%. The full award only vests where EPS growth is at least 14.5%.

#### *All employee sharesave scheme*

The Group operates a sharesave scheme approved by HM Revenue and Customs which is open to eligible employees in all the countries in which the Group currently operates including the Executive Directors. Under this scheme employees make regular savings for a three year period, following which they have six months to exercise the options granted. No performance conditions are attached to options granted under the scheme, as it is an all employee scheme. The scheme is administered by Computershare.

#### *Pension arrangements*

Employer contributions in respect of Executive Directors are made to money purchase pension schemes at the rates set out in their service contracts, which are up to 7% of basic salary for R. Watson, C. Patten, P. Heffer and N. Majewski and 20% for T. Bergman. No pension contributions are made in respect of Non-Executive Directors.

#### **Directors' service contracts**

##### *Executive Directors*

All Executive Directors have service agreements without expiry dates, which commenced on 24 April 2007 and can be terminated by the giving of 12 months' notice by either party.

##### *Non-Executive Directors*

D. Naish and C. Marsh entered into a letter of appointment with the Company dated 24 April 2007 for an initial period of three years and on 22 March 2010 their appointments were extended for a further three years. C. Smith entered into a letter of appointment with the Company with effect from 1 October 2010 for an initial period of three years. All Non-Executive Directors' appointments are terminable upon six months' notice by either party.

The Non-Executive Directors receive the fees set out in their letters of appointment. The remuneration of the Non-Executive Directors is determined by the Non-Executive Chairman and the Executive Directors and reflects the time, commitment and responsibility of their roles. The Non-Executive Chairman's remuneration is determined by the Executive Directors.

There is no requirement for Directors to hold shares in the Company.

## Remuneration report continued

### Termination payments

On termination Executive Directors are entitled to receive a lump sum payment in lieu of notice, subject to a maximum of 12 months, equal to their basic salary plus any accrued holiday pay. However in circumstances including breach, criminal offence, misconduct or bankruptcy there is no such entitlement to payment in lieu of notice. Non-Executive Directors are not entitled to any compensation for loss of office.

No termination payments were made during the year to any of the Executive or Non-Executive Directors.

### Performance graph

The graph below shows the TSR performance (share price movements plus reinvested dividends) of the Company against the FTSE Small Cap Index from flotation on 17 May 2007 to end of 2011. The FTSE Small Cap Index is, in the opinion of the Directors, the most appropriate index against which the TSR of the Company should be measured.



### Audited information

The following information has been audited by the Company's auditors, PricewaterhouseCoopers LLP, as required by the Companies Act 2006.

### Directors' remuneration

The remuneration of Directors for the year was as follows:

	2011 £'000	2010 £'000
Fees and basic salary	1,606	1,526
Bonuses	609	689
Benefits in kind	152	145
	2,367	2,360
Pension contributions	154	136
	2,521	2,496

The remuneration of individual Directors, including pension contributions, is set out below.

	Directors' salaries/fees £'000	Annual bonus £'000	Benefits in kind £'000	Total 2011 £'000	Total 2010 £'000	Pension 2011 £'000	Pension 2010 £'000
<b>Executive Directors</b>							
R. Watson	336	142	34	512	516	23	22
C. Patten	269	114	39	422	423	19	18
P. Heffer	269	114	33	416	418	19	18
T. Bergman	295	125	22	442	438	77	74
N. Majewski	269	114	24	407	409	16	4
<b>Non-Executive Directors</b>							
D. Naish	80	—	—	80	70	—	—
C. Marsh	45	—	—	45	43	—	—
C. Smith	43	—	—	43	10	—	—
G. Summerfield	—	—	—	—	33	—	—
<b>Total</b>	<b>1,606</b>	<b>609</b>	<b>152</b>	<b>2,367</b>	<b>2,360</b>	<b>154</b>	<b>136</b>



**Share option schemes**

Options over Hilton Food Group plc ordinary shares granted under the executive share option and sharesave schemes held by Directors were as follows:

Director	At 2 January 2011	Granted	At 1 January 2012	Exercise price (pence)	Earliest exercise date	Latest exercise date	Notes
R. Watson	150,376	–	150,376	199.50	12.05.11	12.05.18	1
	180,258	–	180,258	174.75	01.05.12	01.05.19	1
	130,610	–	130,610	246.00	10.05.13	10.05.20	1
	6,531	–	6,531	147.00	19.12.11	19.06.12	2
C. Patten	120,301	–	120,301	199.50	12.05.11	12.05.18	1
	144,206	–	144,206	174.75	01.05.12	01.05.19	1
	104,488	–	104,488	246.00	10.05.13	10.05.20	1
P. Heffer	120,301	–	120,301	199.50	12.05.11	12.05.18	1
	144,206	–	144,206	174.75	01.05.12	01.05.19	1
	6,531	–	6,531	147.00	19.12.11	19.06.12	2
	104,488	–	104,488	246.00	10.05.13	10.05.20	1
T. Bergman	120,301	–	120,301	199.50	12.05.11	12.05.18	1
	154,751	–	154,751	174.75	01.05.12	01.05.19	1
	113,610	–	113,610	246.00	10.05.13	10.05.20	1
N. Majewski	120,301	–	120,301	199.50	12.05.11	12.05.18	1
	144,206	–	144,206	174.75	01.05.12	01.05.19	1
	104,488	–	104,488	246.00	10.05.13	10.05.20	1
	6,531	–	6,531	147.00	19.12.11	19.06.12	2

- Executive share options are subject to a performance condition of growth in the Companies normalised Earnings per share equalling or exceeding the growth in the UK Retail Prices Index by an average of 3% per annum (9.3% over three years), for the options to be exercisable.
- Options granted under the sharesave scheme. As this is an all employee scheme, no performance conditions are attached.

The closing market share price on 31 December 2011 was 280.0p and the high and low closing market share prices during 2011 were 297.0p and 236.5p respectively.

On behalf of the Board

**Chris Marsh**

Chairman of the Remuneration Committee

28 March 2012

## Corporate Governance statement

### The UK Corporate Governance Code

The Financial Reporting Council issued the UK Corporate Governance Code (the "Code") in June 2010 (replacing the previous UK Combined Code of Corporate Governance) which applies to accounting periods beginning on or after 29 June 2010.

The Board has prepared this report with reference to the new UK Corporate Governance Code. The Directors consider that the Company has during 2011 complied with the nine requirements of the Code, taking into account the provisions for smaller companies. The provisions of the Code can be obtained from [www.frc.org.uk/corporate/ukcgcode.cfm](http://www.frc.org.uk/corporate/ukcgcode.cfm).

This statement and the Remuneration report on pages 34 to 37, detail how the Board applies the principles of good governance and best practice as set out in the UK Corporate Governance Code.

### The Board

#### *Membership*

At the date of this report the Board consists of five Executive Directors and three Non-Executive Directors whose names, responsibilities, brief biographies and membership of Board Committees are set out on pages 28 and 29. The Directors bring strong judgement and expertise to the Board's deliberations and the Board is of sufficient size and diversity to achieve the balance of skills and experience appropriate for the requirements of the business.

#### *Non-Executive Directors*

The Non-Executive Directors include the Non-Executive Chairman and the Senior Independent Director. With the exception of the Non-Executive Chairman, who is presumed under the Code not to be independent following his appointment, the Board considers the Non-Executive Directors to be independent. The Non-Executive Directors do not participate in any of the Group's pension arrangements or in any of the Group's bonus or share option schemes. There is a clear written division of responsibilities between the Non-Executive Chairman and the Chief Executive which has been agreed by the Board.

#### *Senior Independent Director*

Chris Marsh, the Senior Independent Director, is available to shareholders as an alternative to the Non-Executive Chairman, Chief Executive and Finance Director. He ensures that he is available to meet shareholders, as required, and reports any relevant findings to the Board.

#### *Rotation of Directors*

The Company's Articles of Association provide that one-third of the Directors retire by rotation at each Annual General Meeting and that all new Directors are subject to election by shareholders at the first opportunity following their appointment. Colin Patten will not be seeking re-election. Philip Heffer and Sir David Naish retire in accordance with the Articles of Association at the forthcoming Annual General Meeting and, being eligible, each offers himself for re-election.

#### *Performance evaluation*

The Non-Executive Chairman leads a formal annual performance evaluation of the Board and its standing

Committees and meets with the Non-Executive Directors at least once a year to convey his conclusions. The evaluation process during the year was externally facilitated involving each Board member completing a written questionnaire followed by an individual face to face interview with the external evaluator who has no connection with the Company. The Board evaluation report made a number of recommendations which will be acted upon to further enhance the effectiveness of the Board.

#### *Board responsibilities*

The Board is collectively responsible for promoting the success of the Group, within a framework of prudent and effective controls that enable risk to be assessed and appropriately managed. It is responsible for setting and approving the strategy and key policies of the Group and monitoring the progress towards achieving these objectives. The Board aims to enhance shareholder value by providing entrepreneurial leadership for the Group, whilst simultaneously ensuring the appropriate framework of checks and balances are maintained in place.

The Board has specific powers reserved to it contained in a schedule of matters reserved for decision by the Board which include:

- acquisitions and disposals;
- major trading agreements;
- major capital expenditure projects;
- dividends;
- treasury and risk management policies;
- approval of budgets, half yearly and annual accounts and interim management statements; and
- the giving of any guarantees or letters of comfort.

The Board meets not less than eight times a year to direct and control the strategy and operating performance of the Group. The Board also has responsibility for setting policy and monitoring from time to time such matters as financial and risk control, health and safety policy, environmental issues and management succession and planning. The Board has delegated to the Chief Executive and the Executive Directors responsibility for the execution of the agreed strategy and budget and the day-to-day management of the Group's operations. Day-to-day decisions in relation to procurement and supply chain management, factory operations and customer liaison are delegated to the senior management teams at each operational site.

#### *Directors' conflicts of interest*

Under the Companies Act 2006, the Group's Directors have an obligation to avoid any situation where they have a conflict of interests. The Group has in place procedures that require all Directors to notify the Group of any conflicts of interest and, for any such conflicts of interest to be authorised by non-interested Directors, provided the Company's articles allow for this. During the current financial year the Group were not advised of nor did the Group identify any such conflicts of interest.

## The Board (continued)

### Information and support provided to Board members

Members of the Board and its Committees are given appropriate documentation in advance of each Board and Committee meeting. For regular Board meetings these include a detailed period report on current and forecast trading, with comparisons against both budget and prior years. For all meetings appropriate explanatory papers are circulated well in advance on matters which the Board or Committee will be required to approve or provide responses.

The Board operates both formally through Board and Committee meetings and informally through regular contact between Directors. To assist them in carrying out their responsibilities the Directors have, in addition to full and timely access to all relevant information from management in advance of Board meetings, the right to obtain independent professional advice at the Company's expense and the advice and services of the Company Secretary to enable them to perform their duties as Directors. The Company Secretary is responsible to the Board, through the Chairman, for all governance matters. The appointment and removal of the Company Secretary is determined by the Board as a whole.

### Meeting attendance

The following table sets out the Board and Committee meeting attendance by Board members, including the maximum number of meetings which could have been attended.

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Related Supply Committee	Risk Management Committee
Number of meetings	10	4	3	1	3	10
R. Watson	10					
C. Patten	8					
P. Heffer	9					
T. Bergman	10					
N. Majewski	10	4				9
D. Naish	10	4	3	1	3	
C. Marsh	10	3	3	1	3	
C. Smith	10	4	3	1	3	

### Committees of the Board

The standing committees of the Board include the Nomination, Remuneration, Audit, Related Supply and Risk Management Committees. The Nomination, Remuneration and Audit Committees have formal terms of reference which can be found on the Company's website at [www.hiltonfoodgroupplc.com](http://www.hiltonfoodgroupplc.com).

The work of these five Committees, including a summary of their terms of reference, is summarised below and in the Remuneration report on pages 34 to 37.

#### Nomination Committee

The Nomination Committee leads the process for Board appointments by making recommendations to the Board ensuring an appropriate balance of skills, knowledge and experience having regard for diversity on the Board including gender. The Committee meets, as required, in order to propose to the Board new appointments of Executive and Non-Executive Directors. The Chairman has discussions with each Director to review and agree their training and development needs.

During 2011 the Nomination Committee comprised all the Non-Executive Directors chaired by Sir David Naish. In a very stable environment the Committee met once during the year but has not been required to consider any new appointments.

The Chairman of the Nomination Committee will be available at the Annual General Meeting to respond to any shareholder questions.

#### Remuneration Committee

During 2011 the Remuneration Committee, which was chaired by Chris Marsh and meets at least three times a year, comprised all the Non-Executive Directors. No Director attends any part of a meeting at which his own remuneration is discussed. The Non-Executive Chairman and the Executive Directors determine the remuneration of the Non-Executive Directors and the remuneration of the Non-Executive Chairman is determined by the Executive Directors. The Committee determines, within a framework agreed by the Board, Executive Director's individual remuneration packages and terms and conditions of service and determines the performance conditions for bonus and incentive schemes and the issue of executive share options. It also recommends and monitors the level and structure of senior management remuneration immediately below Board level. The Committee has access to advice from the Company Secretary and such external surveys of remuneration in comparable companies as it requires.

The Remuneration report on pages 34 to 37 provides fuller details of the Company's executive remuneration policy and practice and of the working of the Committee. The Chairman of the Remuneration Committee will be available at the Annual General Meeting to respond to any shareholder questions.

## Corporate Governance statement continued

### *Audit Committee*

The Audit Committee plays a key role in reviewing the Group's financial controls and reporting. It manages the Group's relationships with internal and external auditors and assists with the Group risk financial control procedures and regulatory compliance.

During 2011 the Audit Committee, which was initially chaired by Chris Marsh and meets at least three times a year, comprised all the Non-Executive Directors, who between them have a wide experience of industry and commerce. On 27 June 2011 Colin Smith, who has significant and relevant current financial experience, was elected Chairman of the Committee.

The Finance Director and the Group Financial Controller, together with the external auditors and the Group Internal Auditor, attend the Audit Committee meetings, as appropriate. The external auditors and the Group Internal Auditor have the opportunity for direct access to the Committee, without the Executive Directors being present.

The Committee reviews the Group's accounting policies and internal accounting and control reports, together with the results of the work undertaken by Hilton's internal audit function and all reports from the external auditors. The Committee has overall responsibility for monitoring the integrity of financial statements and related announcements, together with all aspects of internal control.

The Committee reviews the Group's interim and full year financial statements, the scope, results and effectiveness of the work of the internal audit function, the internal and external audit plans, reports from the internal and external auditors and monitors the external auditor's independence. The Committee is responsible for recommending the appointment or removal of the external auditors and for monitoring their effectiveness, remuneration and terms of engagement, including the nature and level of non-audit services. The Board reviews annually the Group's systems of internal control on the basis of a report by the Audit Committee.

During the year the Committee approved a policy on the use of external auditors for non-audit services designed to preserve the independence of the external auditors. The policy categorises non-audit services into i) continuing services which the Committee permits external auditors to undertake subject to a price cap, ii) irregular or significant services requiring Committee approval on a case by case basis and iii) non-permitted services.

A whistle-blowing policy is in place in accordance with which staff can, in confidence, raise any concerns about any actual or potential improprieties in relation to matters of financial reporting or any other aspect of the Group's businesses. The Group has also implemented an anti-bribery and anti-corruption policy to comply with the Bribery Act 2010.

The Chairman of the Audit Committee will be available at the Annual General Meeting to respond to any shareholder questions.

### *Related Supply Committee*

The Related Supply Committee during 2011 comprised all the Non-Executive Directors and is chaired by Sir David Naish. The Committee's principal responsibility is to ensure that all commercial arrangements between the Group and shareholder owned suppliers (comprising Hilton Meats (International) Limited and RWM Food Group Limited and any of these two companies' subsidiaries) are conducted on a strictly arm's length basis and in accordance with the terms of the supply agreements agreed between the Group and those parties. This avoids any situations which could give rise to a conflict of interests for some Directors, in line with the Group's conflict authorisation procedures. During 2011 RWM Food Group Limited changed ownership thereby ceasing to be a shareholder owned supplier.

The Committee monitors the quantity and terms of orders placed with shareholder suppliers and the shareholders suppliers' performance across a range of key performance indicators and is authorised to seek any information it requires, whether from employees of the Group or externally. The Committee reports to the Board on issues, recommendations and decisions it has made.

The Chairman of the Related Supply Committee will be available at the Annual General Meeting to respond to any shareholder questions.

### *Risk Management Committee*

The Risk Management Committee is chaired by the Finance Director, Nigel Majewski and comprises the five operating subsidiary company operations managers and the Group Internal Auditor, together with other personnel throughout the Group as required. The Committee meets regularly and at least six times a year. Its principal functions are to raise the level of management awareness of and accountability for business risks faced, embed risk management into the Group culture, provide a mechanism for risk management issues to be discussed and disseminated and to provide advice on and co-ordinate risk management strategies across the Group ensuring they receive the appropriate level of sponsorship and support. The Committee is authorised to seek any information it requires from Group employees as well as any external legal or professional advice it requires and reports to the Board following each meeting.

The work of the Committee during the year included the enhancement of disaster recovery plans including sister site support and progress towards BS25999 Business Continuity Management.

The Chairman of the Risk Management Committee will be available at the Annual General Meeting to respond to any shareholder questions.

### *Information and support provided to Committee members*

The Committees are provided with sufficient resources to undertake their duties through access to the Company Secretary and the ability to obtain such independent professional advice, at the Company's expense, as they deem necessary.



### Shareholder communications

The Board promotes open communication with shareholders. The Chief Executive and Finance Director meet regularly and have dialogue with institutional shareholders both to discuss the Group's performance and prospects and to develop an understanding of their views which are relayed back to the Board. The Board's current assessment of the Group's position and prospects are set out in the Chairman's statement, the Chief Executive's summary, the Financial review and the Business review on pages 4 to 25. Twice a year general presentations are given to analysts covering the annual and half year results and other reports and forecasts, together with relevant articles in the financial press, are circulated to the Board.

The other Executive Directors are available to meet the Company's major shareholders if required and the Senior Independent Director is available to listen to the views of shareholders, should they have concerns which have not been previously resolved or which it was inappropriate to voice at prior meetings. All shareholders have the opportunity to ask questions at the Company's AGM, which all Directors and the Chairmen of every Board Committee attend. In addition the Group's website containing published information and press releases can be found at [www.hiltonfoodgroupplc.com](http://www.hiltonfoodgroupplc.com).

### Internal control

The Board of Directors has overall responsibility for the Group's systems of internal control including financial, operational and compliance controls and risk management which operate to safeguard the shareholders' investments and the Group's assets and for reviewing their continuing effectiveness. Such an internal control system can only provide reasonable and not absolute assurance against material misstatement or loss as it is designed to manage rather than eliminate risk and failure to meet business objectives.

The Group operates within a clearly defined organisational structure with established responsibilities, authorities and reporting lines to the Board. The organisational structure is designed to plan, execute, monitor and control the Group's objectives effectively and ensure internal control becomes integral to all the Group's operations. The Board confirms that the Group's internal risk based control systems have been fully operative up to the date of the Annual Report being approved, key ongoing processes and features of which are set out below:

- appropriate mechanisms to identify and evaluate business risk;
- a Group internal audit function which is involved in the review and testing of the internal control systems and of key risks across the Group in accordance with an annual programme agreed with the Audit Committee;
- a strong control environment;
- an information and communication process; and
- a monitoring system and regular Board reviews for effectiveness.

The Group's planning and financial reporting procedures include detailed budgets and a three year strategic plan which are approved by the Board. Periodic management accounts report performance compared to the budget and additionally forecasts are updated through the year. These management accounts together with half-yearly and annual accounts produced by the Group's subsidiary companies are reviewed together with the methodology used for consolidating these into the periodical, half-yearly and annual accounts. All financial information published by the Group is approved by the Board and Audit Committee.

The Finance Director and Group Financial Controller are responsible for overseeing the Group's internal controls. The management of the Group's businesses have identified the key business risks within their operations, considered their financial implications and assessed the effectiveness of the control processes in place to mitigate these risks. The Board has reviewed a summary of these findings and this, together with its direct involvement in the strategies of the business, investment appraisal and budgeting processes, has enabled the Board to report on the effectiveness of the Group's internal control systems, which comply with the Turnbull Guidance.

### Auditor independence

The Board is satisfied that PricewaterhouseCoopers LLP has adequate policies, processes and safeguards in place, including partner rotation designed to ensure that auditor objectivity and independence is maintained. The Company meets its obligations for maintaining the appropriate relationship with the external auditors through the Audit Committee whose terms of reference include an obligation to consider and keep under continuing review the degree of work undertaken by the external auditors, other than the statutory audit, so as to ensure such objectivity and independence is safeguarded. Details of fees for non-audit work are set out in note 6 on page 61 of the financial statements.

By order of the Board

**Neil George**  
Company Secretary

28 March 2012

## Corporate and Social Responsibility report

### Taking care of our stakeholders and the environment

Hilton Food Group recognises that it has social, ethical and environmental responsibilities arising from its operations and is committed to the welfare of its employees, customers, suppliers and the communities in which it operates. The Group is committed to working with customers, suppliers, local communities and competitors in an ethical, open and honest manner to produce excellent products in a responsible and sustainable manner.

Two members of the Board, Philip Heffer and Theo Bergman have been assigned responsibility for environmental matters and health and safety across the Group's six operational sites. The philosophies which underpin our policies for the Environment, Regulatory Compliance, Health and Safety, Product Quality and Integrity and Ethical Conduct are summarised below.

#### Sustainable food safety, integrity and quality from farm to fork

Consumers rightly expect quality and value for their hard earned money. Hilton strives, in partnership with our retail customers, to successfully deliver safe, consistently high quality, convenient and ready to use retail packs of beef, lamb, pork and added value meat products to ensure the highest level of consumer satisfaction. Primal meat cuts are sourced from the best abattoirs and meat boning plants to exacting specifications ensuring cost effectiveness. Our products are governed by EU legislation and food safety standards throughout the meat supply chain. Additionally our retail partners, who support the Global Food Safety Initiative, demand the best animal welfare standards, food factory standards and quality systems to enhance their levels of brand integrity.

##### Meat sourcing

As specialist retail meat packers Hilton can source its requirements for primal meat from the most advanced abattoirs in countries throughout the EU and other regions such as New Zealand and South America. Science and technology plays a large part in the consistent achievement of meat quality and influences Hilton's procurement of meat from large and small suppliers. In all cases Hilton's quality systems allow traceability of all meat used to its country of origin as this is an important factor for consumers when choosing which product to buy. Together with our retail partners we ensure that consumers have the best choice and can select on the basis of provenance, quality and price. For example, Hilton is able to focus its meat sourcing strategy on high quality pasture fed beef from Ireland and good welfare produced pork from the Netherlands, UK, Germany and Denmark where efficient production methods yield good prices.

##### Producer standards

Hilton is very attentive and listens carefully to consumer demands. We ensure that product comparison information is shared with suppliers and producers enabling farmers to improve their product. Good quality meat can only be produced from animals reared and handled to the best animal welfare standards as freedom from stress is a fundamental requirement not only for ethical and sustainable reasons but also to achieve consistent meat quality for consumers.

In addition farmers give a lot of thought to animal nutrition not only to achieve efficient weight gain but also to meet consumer demands on flavour and fat content. Hilton works closely with its suppliers and the farming community to continually improve the cleanliness of animals presented for slaughter as this has a direct effect on the reduction of pathogen risks associated with fresh meat.

##### Abattoir standards

It is well established in science that abattoir standards contribute significantly to the achievement of consistent meat quality. Hilton works closely with our retail partners to set best in class specifications ensuring humane and effective stunning, control of microbial contamination and pH and temperature drop is controlled according to best scientific practice. Meat is matured and boned according to clear enforced primal specifications that are agreed between Hilton, its retail customers and suppliers. Hilton develops long term trading partnerships with our suppliers by facilitating achievement of our retail customer's requirements through auditing by third party experts and development of sustainable corrective action plans where non-conformances are identified. We support our suppliers in applying abattoir standards covering factory structure and site standards, animal welfare standards, control of contamination through cleaning and disinfection, temperature controls, carcass dressing, boning and packing standards and traceability. Auditing as a means of challenging standards is now expected by consumers together with well established procedures throughout the food chain.

##### Retail packing at Hilton

Hilton continually develops and refines its monthly data collection and reporting particularly in the key area of meat raw material received. Samples collected from each delivery are assessed for compliance to microbiological standards and compliance to agreed quality specifications. Results are used to assess the performance of suppliers, a procedure welcomed by our retail customers as well as our suppliers who use the outcomes as a measure for the purpose of achieving continuous improvement. We are proud of our state of the art modern facilities comprising specialised meat processing, packing, automation and robotic equipment. Temperature control throughout our storage and production departments is fundamental to the quality of our products and this is centrally controlled with alarm alerts if there is any deviation from specified temperature requirements.

Specialised highly trained hygiene teams deep clean our factories every day using the latest technology and these clearly specified procedures are verified using not only trained auditors but also the latest monitoring equipment. Top quality meat from our suppliers, temperature control and high class standards of hygiene ensure that Hilton's retail partners receive product that consistently achieves agreed shelf life and meets customer expectations. All staff and visitors can only enter Hilton production facilities wearing specified personal protective clothing and by passing through barrier protected hand washing and sanitising facilities. The effectiveness of these entrance procedures are routinely verified using hand swabbing checks.

The responsibility for the quality of Hilton's retail partners' products is accepted by our well trained production operatives supported by a highly qualified and experienced quality assurance and technical team at each site. Besides maintaining annual third party accreditation through FSSC (Food Safety System Certification) using ISO 22000 and PAS 220 or BRC (British Retail Consortium) Issue 6, Hilton sites constantly challenge themselves through cross auditing of hygiene and quality system standards by other technical and quality managers from within the Hilton Food Group. In addition we welcome the constant attention of our retail customers who make weekly visits to our sites some of which are unannounced. This level of attention is a valuable part of our partnership with our retail customers and gives consumers confidence that Hilton can consistently meet their expectations.

New product development is carried out in partnership with our retail customers and we pride ourselves on the kitchen facilities that Hilton has to facilitate this process of innovation and development. It is a fundamental strength of the Hilton team that a culture of sharing best practice is encouraged and developed. Technical managers from all sites meet regularly to share experiences, agree innovation initiatives and develop processes and systems that enable Hilton Food Group to remain at the forefront of our industry. We are helped in this process by maintaining strong links with academia and technological advances through Campden BRI, Bristol University and attendance at the annual International Conference of Meat Science and Technology.

Graduate recruitment is accepted as a fundamental part of the Hilton Food Group's future. We have successfully placed three of our trained graduates in key management roles to date and are well placed to employ a further three for our well developed graduate training programme which includes completion of an MSc in Meat Sciences at Bristol University.

#### Awards

Hilton takes great pride in its products and we are delighted that the quality and innovation of these products is recognised. We received awards in five classes in the Guild of Fine Food Great Taste Awards 2011 for our Irish Angus beef and Finest Irish bacon rashers. In the Netherlands our Pork is sold under the Good Farming Star brand and our extra lean range won the Allerhande Award for best innovation.

### Environment

The Group takes all practicable steps to manage carefully its impact on the natural environment. We believe improvements to our environmental performance can make a difference to society and are committed to assessing the impacts of our operations on land, water, air and biodiversity and to managing our waste, in all its forms, by reusing or recycling it, where practicable.

In the context of the total carbon footprint of retail packed meat, the proportion which can be influenced by Group's packing activity represents is very small indeed, as the Group is not involved in the breeding, growing and slaughtering of animals and the packaging formats used for its products are selected by our customers. The Group is nevertheless committed, working closely with its customers, to minimising its environmental impact.

#### Regulatory compliance

The Group is in full compliance with all environmental regulations, permits and consent limits which apply to each of its packing plants in each country of operation and views such compliance as a high priority, looking to make continuing improvements with respect to the environment in all its operations whilst ensuring that we manage our environmental performance in accordance with evolving legal and regulatory requirements and international standards.

#### Carbon footprint

The Group's carbon footprint has been estimated via the Carbon Trust carbon footprint calculator using emissions factors published by Defra. Hilton recognises the environmental impact of business travel in addition to a decrease in productive working and is enhancing its video conferencing technology across all its sites to minimise the amount of required travel by its employees.

	Tonnes of CO <sub>2</sub> per tonne of product
2011	0.14
2010	0.13

#### Energy usage

Our processing and packing operations consume electricity, gas, water and industrial gases and at all our sites and our management teams work to identify areas for further efficiency gains in terms of energy usage. The Group invests heavily in maintaining state of the art high speed packing facilities which progressively reduce energy costs per unit packed. Over time the development of packing technology means that any given volume of meat can be packed with fewer high speed lines. Performance on energy usage, the cost of which has been affected by recent sharp rises in utility costs, is shown below:

	Electricity and gas	Water	Liquid CO <sub>2</sub> and O <sub>2</sub>
2011 – £'000	4,147	512	880
2010 – £'000	3,060	260	979
2009 – £'000	3,603	240	636
2011 – Cost per kilogram (pence)	2.0	0.24	0.42
2010 – Cost per kilogram (pence)	1.6	0.13	0.50
2009 – Cost per kilogram (pence)	2.0	0.13	0.35

Costs per kilogram shown above are per kilogram of packed meat sold. Costs per unit of energy consumed will always be subject to external factors entirely beyond the Group's control. Use of LED lighting in the Group's factories will reduce future electricity consumption.

## Corporate and Social Responsibility report continued

### Waste

A degree of wastage is unavoidable in our businesses, as we have to ensure that our products continually meet stringent standards for quality and presentation. We work actively to reduce our usage of materials and the reduction of product and packaging waste has a very high priority across the Group. The yield losses incurred in processing and packing meat and packaging wastage are monitored throughout each day across the entire product range, at every Hilton site. Performance on meat yields, being the percentage by which the weight of meat purchased as raw material compares with that incorporated in finished packed meat products, is minimised by, where possible, using off-cuts in mince, burgers and other part processed meat products and by ensuring that meat purchased meets tight specifications.

### Packaging

Packaging is useful as it protects our products thus reducing food waste and this benefit offsets the environmental impact of the materials and energy used in its manufacture. Hilton is committed with its retail partners to reducing packaging through use of lightweight and recyclable materials from sustainable sources.

## Workplace

### Health and safety

One of Hilton's top priorities is to achieve continual improvements in health and safety. The Group requires all its subsidiaries to achieve high health and safety standards within their individual operations. All subsidiaries conduct regular formal health and safety reviews. Managers and employees review policies, processes and procedures in order to ensure that risks are properly assessed, with appropriate actions taken in order to protect the safety of employees.

We monitor and review all incidents and accidents in the workplace so that we can take appropriate action to improve working conditions whilst remaining focused on reducing both the absolute number of accidents and the number of serious accidents. Formal reporting procedures are in place at every site so that the Group can monitor safety performance at a local level. There is a full time safety officer at each site who monitors the key measures for safety performance which include the number of serious and non-serious accidents and the number of working days lost through injury, together with short and long term sickness levels, key statistics in relation to which for 2011 are shown below:

	Average number of employees	Serious accidents	Recorded accidents per 100,000 hours worked	Sickness rate (%)
2011	2,181	10	6.0	5.2%
2010	1,909	30	9.0	5.6%
2009	1,645	12	6.8	5.7%

### Our people

We recognise that driving our future growth and development will continue to depend on our ability to attract, grow, train and retain the very best managers and staff and to build progressively stronger teams at each location. We believe that a key to our future success lies in the promotion of properly trained, knowledgeable and capable management from within our organisation together with the ongoing motivation of our teams in each country.

The Group provides equal opportunity for employment, training and career development and promotion regardless of age, sex, colour, race, religion, ethnic origin or other minority groupings. The Group encourages the employment of disabled people when suitable vacancies are available and wherever possible retrain employees who become disabled to enable them to do work consistent with their aptitudes and abilities. Where practicable a flexible approach is adopted to assist employees to manage a successful work life balance.

Hilton operates to high standards of employment practice. The Group has ethnically diverse workforces who at each location receive the same terms and conditions for comparable jobs. Given the geographical spread of the Group's operations it is both inappropriate and impractical to apply standard employee consultation and communication procedures across the Group. Each subsidiary is accordingly responsible for achieving and maintaining appropriate consultation and communication with its employees which include at all production sites joint management and employee committee meetings on health and safety and meetings with employees and union representatives to discuss issues affecting them.

### Trading relationships with partners and suppliers

Strong and fair long term relationships with partners and suppliers are very important for Hilton. The Group's approach to corporate social responsibility is reflected in the way we behave with our suppliers which is open, consistent and honest. In the UK the Group follows the Better Payment Practice Code which requires a company to agree the terms of payment with its suppliers, to ensure its suppliers are aware of those terms and to abide by them. The Group policy is also to apply the requirements of the Code in each of its European subsidiaries.

### Ethical standards

Hilton is committed to integrity. Ethical standards are very important in relation to the way we conduct our businesses and all the Group's employees are expected to behave ethically in their work and adhere to the Group's ethical standards. As an international group of companies we are fully aware of the broad spread of our responsibilities in all the countries in which we operate from protecting the environment to safeguarding the health and safety of our employees, ensuring honesty, integrity and fairness in all our business dealings and operating our businesses in a safe and responsible manner.



A whistle-blowing policy is in place in accordance with which staff can in confidence raise any concerns about any actual or potential improprieties in relation to matters of financial reporting or any other aspect of the Group's businesses. The Group has also implemented an anti-bribery and anti-corruption policy to comply with the Bribery Act 2010.

## Community

### Supporting our local communities

Hilton's policy is to recruit locally based employees wherever possible in order to benefit the communities within which our plants are located. Hilton aims to play a positive role in all the communities in which it operates and we encourage employees to become involved with and support the local communities around our sites. We recognise the social impacts of our business and believe in consultation with local communities about our activities and about the safety and environmental impact of our operations. During 2011, in addition to small but regular donations made to local institutions and sponsorship of personal charitable initiatives and cultural events, Hilton supported a number of sports and musical events.

The Group seeks to be a good neighbour in all its locations. We are committed to social responsibility and believe that the success of our businesses will reflect the quality of the relationships we build with our communities and legitimate public interest groups.

### Social, ethical and environmental risks

The Board carries out a broad review of all business risks as highlighted in the Corporate Governance statement on pages 38 to 41. The scope of this review covers social, environmental and ethical matters and is aimed at identifying significant risks to shareholder value whilst providing the Board with an opportunity to manage any risks identified.

## Financial statements

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# 4

## Independent auditors' report to the members of Hilton Food Group plc

We have audited the financial statements of Hilton Food Group plc for the 52 weeks to 1 January 2012 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company balance sheets, the Consolidated and Company statement of changes in equity, the Consolidated and Company cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

### Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 33, 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.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 1 January 2012 and of the Group's profit and Group's and parent company's cash flows for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by

the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

In our opinion:

- the part of the Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Remuneration report to be audited 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; or
- a Corporate Governance statement has not been prepared by the parent company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 19 in relation to going concern;
- the parts of the Corporate Governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

### Martin Pitt (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors

Belfast

28 March 2012

The maintenance and integrity of the Hilton Food Group plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Consolidated income statement

	Notes	2011 52 weeks £'000	2010 52 weeks £'000
Continuing operations			
<b>Revenue</b>	5	<b>981,345</b>	864,223
Cost of sales		(850,893)	(750,787)
<b>Gross profit</b>		<b>130,452</b>	113,436
Distribution costs		(9,720)	(11,049)
Administrative expenses		(94,850)	(79,071)
<b>Operating profit</b>		<b>25,882</b>	23,316
Finance income	9	258	135
Finance costs	9	(1,627)	(1,240)
Finance costs – net	9	(1,369)	(1,105)
<b>Profit before income tax</b>		<b>24,513</b>	22,211
Income tax expense	10	(5,915)	(5,296)
<b>Profit for the year</b>		<b>18,598</b>	16,915
<b>Attributable to:</b>			
Owners of the parent		17,199	15,745
Non-controlling interests		1,399	1,170
		18,598	16,915
<b>Earnings per share for profit attributable to owners of the parent during the year</b>			
– Basic (pence)	11	24.7	22.6
– Diluted (pence)	11	24.3	22.4

## Consolidated statement of comprehensive income

		2011 52 weeks £'000	2010 52 weeks £'000
<b>Profit for the year</b>		<b>18,598</b>	16,915
<b>Other comprehensive income</b>			
Currency translation differences		(1,553)	411
<b>Other comprehensive income for the year net of tax</b>		<b>(1,553)</b>	411
<b>Total comprehensive income for the year</b>		<b>17,045</b>	17,326
<b>Total comprehensive income attributable to:</b>			
Owners of the parent		15,732	16,241
Non-controlling interests		1,313	1,085
		17,045	17,326

The notes on pages 52 to 72 are an integral part of these consolidated financial statements.



## Consolidated balance sheet

	Notes	2011 £'000	Group 2010 £'000	2011 £'000	Company 2010 £'000
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	13	59,179	57,836	–	–
Intangible assets	14	1,907	2,063	–	–
Investments in subsidiary undertakings	15	–	–	102,985	102,985
Deferred income tax assets	21	1,134	1,021	–	–
		62,220	60,920	102,985	102,985
<b>Current assets</b>					
Inventories	16	22,466	20,346	–	–
Trade and other receivables	17	104,033	85,088	156	195
Current income tax assets		–	–	133	156
Cash and cash equivalents	18	27,345	26,141	14	1
		153,844	131,575	303	352
<b>Total assets</b>		<b>216,064</b>	<b>192,495</b>	<b>103,288</b>	<b>103,337</b>
<b>Equity</b>					
<b>Capital and reserves attributable to owners of the parent</b>					
Share capital	22	6,985	6,966	6,985	6,966
Share premium		372	–	372	–
Employee share schemes reserve		1,558	1,071	–	–
Foreign currency translation reserve		2,291	3,758	–	–
Retained earnings		45,392	35,518	9,970	8,104
		56,598	47,313	17,327	15,070
Reverse acquisition reserve		(31,700)	(31,700)	–	–
Merger reserve		919	919	71,019	71,019
		25,817	16,532	88,346	86,089
Non-controlling interests		3,452	2,613	–	–
<b>Total equity</b>		<b>29,269</b>	<b>19,145</b>	<b>88,346</b>	<b>86,089</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Borrowings	19	35,615	35,359	–	–
Deferred income tax liabilities	21	641	1,037	–	–
		36,256	36,396	–	–
<b>Current liabilities</b>					
Borrowings	19	10,440	8,828	–	–
Trade and other payables	20	138,998	124,820	14,942	17,248
Current income tax liabilities		1,101	3,306	–	–
		150,539	136,954	14,942	17,248
<b>Total liabilities</b>		<b>186,795</b>	<b>173,350</b>	<b>14,942</b>	<b>17,248</b>
<b>Total equity and liabilities</b>		<b>216,064</b>	<b>192,495</b>	<b>103,288</b>	<b>103,337</b>

The notes on pages 52 to 72 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board on 28 March 2012 and were signed on its behalf by:

R Watson                      N Majewski  
Director                      Director

Hilton Food Group plc – Registered number: 06165540

## Consolidated statement of changes in equity

Group	Notes	Attributable to owners of the parent									Total equity £'000
		Share capital £'000	Share premium £'000	Employee share schemes reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Reverse acquisition reserve £'000	Merger reserve £'000	Total £'000	Non-controlling interests £'000	
Balance at 4 January 2010		6,966	–	377	3,262	26,432	(31,700)	919	6,256	2,300	8,556
Comprehensive income											
Profit for the year		–	–	–	–	15,745	–	–	15,745	1,170	16,915
Other comprehensive income											
Currency translation differences		–	–	–	496	–	–	–	496	(85)	411
Total comprehensive income		–	–	–	496	15,745	–	–	16,241	1,085	17,326
Transactions with owners											
Adjustment in respect of employee share schemes		–	–	500	–	–	–	–	500	–	500
Tax on employee share schemes		–	–	194	–	–	–	–	194	–	194
Dividends paid	12	–	–	–	–	(6,659)	–	–	(6,659)	(772)	(7,431)
Total transactions with owners		–	–	694	–	(6,659)	–	–	(5,965)	(772)	(6,737)
Balance at 2 January 2011		6,966	–	1,071	3,758	35,518	(31,700)	919	16,532	2,613	19,145
Comprehensive income											
Profit for the year		–	–	–	–	17,199	–	–	17,199	1,399	18,598
Other comprehensive income											
Currency translation differences		–	–	–	(1,467)	–	–	–	(1,467)	(86)	(1,553)
Total comprehensive income		–	–	–	(1,467)	17,199	–	–	15,732	1,313	17,045
Transactions with owners											
Issue of new shares		19	363	–	–	–	–	–	382	–	382
Adjustment in respect of employee share schemes		–	–	408	–	–	–	–	408	–	408
Tax on employee share schemes		–	9	79	–	–	–	–	88	–	88
Dividends paid	12	–	–	–	–	(7,325)	–	–	(7,325)	(474)	(7,799)
Total transactions with owners		19	372	487	–	(7,325)	–	–	(6,447)	(474)	(6,921)
Balance at 1 January 2012		6,985	372	1,558	2,291	45,392	(31,700)	919	25,817	3,452	29,269
Company											
Balance at 4 January 2010		6,966	–	–	–	311	–	–	71,019	78,296	
Comprehensive income											
Profit for the year		–	–	–	–	14,452	–	–	14,452		
Total comprehensive income		–	–	–	–	14,452	–	–	14,452		
Transactions with owners											
Dividends paid	12	–	–	–	–	(6,659)	–	–	(6,659)		
Total transactions with owners		–	–	–	–	(6,659)	–	–	(6,659)		
Balance at 2 January 2011		6,966	–	–	–	8,104	–	–	71,019	86,089	
Comprehensive income											
Profit for the year		–	–	–	–	9,191	–	–	9,191		
Total comprehensive income		–	–	–	–	9,191	–	–	9,191		
Transactions with owners											
Issue of new shares		19	363	–	–	–	–	–	382		
Tax on employee share schemes		–	9	–	–	–	–	–	9		
Dividends paid	12	–	–	–	–	(7,325)	–	–	(7,325)		
Total transactions with owners		19	372	–	–	(7,325)	–	–	(6,934)		
Balance at 1 January 2012		6,985	372	–	–	9,970	–	–	71,019	88,346	

The notes on pages 52 to 72 are an integral part of these consolidated financial statements.

## Consolidated cash flow statement

	Notes	2011 52 weeks £'000	Group 2010 52 weeks £'000	2011 52 weeks £'000	Company 2010 52 weeks £'000
<b>Cash flows from operating activities</b>					
Cash generated from operations	24	41,688	34,139	–	–
Interest paid		(1,627)	(1,240)	(435)	(557)
Income tax (paid)/received		(8,341)	(5,335)	195	522
Net cash generated from/(used in) operating activities		31,720	27,564	(240)	(35)
<b>Cash flows from investing activities</b>					
Purchases of property, plant and equipment		(24,350)	(17,573)	–	–
Proceeds from sale of property, plant and equipment		21	83	–	–
Purchases of intangible assets		(873)	(275)	–	–
Interest received		258	135	–	–
Dividends received		–	–	9,500	14,852
Net cash (used in)/generated from investing activities		(24,944)	(17,630)	9,500	14,852
<b>Cash flows from financing activities</b>					
Proceeds from borrowings		9,309	7,700	–	–
Repayments of borrowings		(6,935)	(8,063)	–	–
Repayment of inter-company loan		–	–	(2,304)	(8,158)
Issue of shares		382	–	382	–
Dividends paid to Company shareholders		(7,325)	(6,659)	(7,325)	(6,659)
Dividends paid to minority interests		(474)	(772)	–	–
Net cash used in financing activities		(5,043)	(7,794)	(9,247)	(14,817)
<b>Net increase in cash and cash equivalents</b>		1,733	2,140	13	–
Cash and cash equivalents at beginning of the year		26,141	24,141	1	1
Exchange losses on cash and cash equivalents		(529)	(140)	–	–
<b>Cash and cash equivalents at end of the year</b>	18	27,345	26,141	14	1

The notes on pages 52 to 72 are an integral part of these consolidated financial statements.

## Notes to the financial statements

### 1 General information

Hilton Food Group plc ("the Company") and its subsidiaries (together "the Group") is a specialist retail meat packing business supplying major international food retailers in twelve European countries. The Company's subsidiaries are listed in note 26.

The Company is a public limited company incorporated and domiciled in the UK. The address of the registered office is 2-8 The Interchange, Latham Road, Huntingdon, Cambridgeshire PE29 6YE. The registered number of the Company is 06165540.

The Company has its primary listing on the London Stock Exchange.

The financial year represents the 52 weeks to 1 January 2012 (prior financial year 52 weeks to 2 January 2011).

These consolidated financial statements were approved for issue on 28 March 2012.

The Company has taken advantage of the exemption in Section 408 Companies Act 2006 not to publish its individual income statement and related notes. Profit for the year dealt with in the income statement of Hilton Food Group plc amounted to £9,191,000 (2010: £14,452,000).

### 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all of the years presented, unless otherwise stated.

#### Basis of preparation

The consolidated financial statements of Hilton Food Group plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on the going concern basis under the historical cost convention.

The financial statements are presented in Sterling and all values are rounded to the nearest thousand (£'000) except when otherwise indicated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

#### Basis of consolidation

These consolidated financial statements comprise the financial statements of Hilton Food Group plc ("the Company") and its subsidiaries, together, ("the Group") drawn up to 1 January 2012. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

A subsidiary is an entity controlled, either directly or indirectly, by the Company, where control is the power to govern the financial and operating policies of the entity.

All inter-company balances and transactions, including unrealised profits arising from inter-group transactions, are eliminated on consolidation.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

## 2 Summary of significant accounting policies (continued)

### International Financial Reporting Standards

#### *(a) New standards, amendments and interpretations effective in 2011*

There are no IFRS or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have a material impact on the Group.

#### *(b) New standards, amendments and interpretations issued but not yet effective, are subject to EU endorsement and not early adopted*

IFRS 9 'Financial instruments' (effective 1 January 2013). This standard, replacing parts of IAS 39, concerns the classification, measurement and recognition of financial assets and financial liabilities. Equity instruments are to be measured at fair value with debt instruments measured at fair value or amortised cost. This standard is not expected to have a material impact on the Group or Company.

IFRS 13 'Fair value measurement' (effective 1 January 2012). This standard provides guidance to improve consistency and reduce complexity across IFRS. This standard is not expected to have a material impact on the Group or Company.

Amendment to IAS 1 'Presentation of financial statements' (effective 1 July 2012). This amendment revises the way other comprehensive income is presented in the statement of comprehensive income. This standard is not expected to have a material impact on the Group or Company.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group or Company.

### Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and the criteria set out in the following paragraph have been met.

The Group sells meat in the wholesale market. Sales of goods are recognised when a Group entity has delivered products to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the products have been shipped to the location specified by the customer, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

### Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of operating segments, has been identified as the Group's Executive Directors.



## Notes to the financial statements

### continued

## 2 Summary of significant accounting policies (continued)

### Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Sterling, which is the Company's functional and the Group's presentation currency.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

#### (c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting currency translation differences are recognised as a separate component of equity in a foreign currency translation reserve.

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment in value.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight line method to allocate the cost of property, plant and equipment to their residual values over their estimated useful lives, as follows:

	Annual rate
Buildings – Held under finance lease	5%
Buildings – Leasehold improvements	10%
Plant and machinery	14% – 33%
Fixtures and fittings	14% – 33%
Motor vehicles	25%

Land is not depreciated. Assets in the course of construction are not depreciated until commissioned.

The residual value and useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying value is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. These impairment losses are recognised in the income statement. Following the recognition of an impairment loss, the depreciation charge applicable to the asset is adjusted prospectively in order to systematically allocate the revised carrying amount, net of any residual value, over the remaining useful life.

## 2 Summary of significant accounting policies (continued)

### Intangible assets

#### (a) Goodwill

Goodwill on acquisitions of subsidiaries and purchase of minority interests is included in 'intangible assets', tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill represents the excess of the cost of the acquisition or purchase over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or minority interest at the date of acquisition.

#### (b) Computer software

Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their useful economic lives of three to seven years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

#### (c) Product licences

The costs of acquiring product licences are capitalised and amortised on a straight line basis over their expected useful economic lives of five to ten years.

### Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### Financial assets

#### (a) Classification

The Group classifies all of its financial assets as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

#### (b) Recognition and measurement

Loans and receivables are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method.

#### (c) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is either determined on the first in first out basis or by the 'retail method' depending on the subsidiary. The 'retail method' computes cost on the basis of selling price less the appropriate trading margin. Cost comprises material costs, direct wages and other direct production costs together with a proportion of production overheads relevant to the stage of completion of work in progress and finished goods and excludes borrowing costs. Net realisable value represents the estimated selling price less costs to completion and appropriate selling and distribution costs. Provision is made, where necessary, for slow moving, obsolete and defective inventories.

## Notes to the financial statements

### continued

## 2 Summary of significant accounting policies (continued)

### Trade and other receivables

Trade receivables represent amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets.

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

### Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short term deposits with an original maturity of three months or less. Bank overdrafts are shown on the balance sheet within borrowings in current liabilities.

### Share capital and reserves

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

The employee share schemes reserve represents the cumulative fair value of share options granted recognised as an expense in the income statement.

The foreign currency translation reserve arises on the consolidation of the Group's overseas subsidiaries representing the difference between assets and liabilities translated at the closing exchange rate and income and expenses translated at average exchange rate.

The merger and reverse acquisition reserves arose during 2007 following the restructuring of the Group.

### Trade and other payables

Trade payables represent obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year. If not, they are presented as non-current liabilities.

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

### Borrowings

All borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs directly attributable to an acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

### Leases

Assets acquired under a lease which transfers substantially all of the risks and rewards of ownership to the Group, are capitalised as property, plant and equipment at their fair value and are depreciated over the shorter of their useful economic lives and their lease term with any impairment being recognised in accumulated depreciation. Amounts payable under such leases (finance leases), net of transaction costs, are classified as current and non-current liabilities based on the lease payment dates. Lease payments are treated as consisting of capital and interest elements and the interest is charged to the income statement in proportion to the reducing capital element outstanding.

Leases where the lessor retains substantially all of the risks and rewards of ownership are classified as operating leases. The annual rentals under operating leases are charged to the income statement as incurred.

## 2 Summary of significant accounting policies (continued)

### Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge represents the expected tax payable or recoverable on the taxable profit for the year using tax laws enacted or substantively enacted at the balance sheet date.

Deferred income tax is recognised, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### Pensions and other post-employment benefits

The Group operates defined contribution schemes for certain employees in the UK, Ireland, the Netherlands and Denmark and contributes to a state administered money purchase scheme in Poland. The Group pays contributions to publicly or privately administered pension insurance plans and has no further payment obligations once the contributions have been made. The contributions are recognised as an employee benefit expense when they are due.

In the Netherlands and Sweden the Group contributes to industry-wide pension schemes for its employees. Although having some defined benefit features the Group's liability to these schemes is limited to the fixed contributions which are recognised as an expense when they are due. Accordingly the Group has accounted for these schemes as defined contribution schemes.

### Share-based compensation

The Group operates share-based compensation plans. The fair value of the employee services received in exchange for the grant of options is recognised as an expense with a corresponding adjustment to equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. All adjustments to equity are recognised as a separate component of equity in an employee share scheme reserve.

### Grants

Grants are recognised at their fair value when there is a reasonable assurance that the grant will be received and all attaching conditions have been complied with.

Capital grants received and receivable by the Group are credited to deferred income and are amortised to the income statement on a straight line basis over the expected useful economic lives of the assets to which they relate.

Revenue grants are recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

### Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

## Notes to the financial statements

### continued

### 3 Financial risk management

#### Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (price risk, foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group by monitoring the foregoing risks.

#### (a) Market risk

##### (i) Price risk

The Group is not exposed to equity securities price risk as it holds no listed or other equity investments. Hilton is exposed to commodity price risk which is significantly mitigated through its customer agreements which are on a cost plus or agreed packing rate basis.

##### (ii) Foreign exchange risk

The Group is exposed to foreign exchange risk in the normal course of business in its overseas operations, principally on transactions in Euros, Swedish Krona, Danish Krone and the Polish Zloty although such risk is mitigated as natural hedges exist in each operation through matching local currency cash flows. The Group regularly monitors foreign exchange exposure and to date has deemed it not appropriate to hedge its foreign exchange position.

##### (iii) Cash flow interest rate risk

The Group's interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group seeks to manage exposure to interest rate risk through interest rate caps over the majority of its long term borrowings.

##### (iv) Sensitivity analysis

Group	Income statement £'000	2011 Equity £'000	Income statement £'000	2010 Equity £'000
Annual effect of a change in Group-wide interest rates by 0.5%	+142	+142	+123	+123
	-142	-142	-123	-123
Annual effect of a change in exchange rates to the GBP £ by 10%	+2,260	+5,043	+2,008	+4,076
	-1,883	-4,160	-1,681	-3,373

#### (b) Credit risk

The Group is exposed to credit risk in respect of credit exposures to its retail customer partners and banking arrangements. The Group, whose only customers comprise blue chip international supermarket retailers, has implemented policies that require appropriate credit checks on potential customers before sales are made and in relation to its banking partners. The Group's maximum exposure to credit risk is £95.1m (2010: £76.1m) as stated in note 17.

#### (c) Liquidity risk

The Group monitors regular cash forecasts to ensure that it has sufficient cash to meet operational needs whilst maintaining sufficient headroom on its undrawn committed borrowing facilities and without breaching its banking covenants. The Group held significant cash and cash equivalents of £27.3m (2010: £26.1m) and maintains a mix of long term and short term debt finance.



### 3 Financial risk management (continued)

The Group's financial liabilities measured as the contractual undiscounted cash flows mature as follows:

	Borrowings £'000	Finance leases £'000	2011 Trade and other payables £'000	Borrowings £'000	Finance leases £'000	2010 Trade and other payables £'000
Less than one year	11,686	333	133,940	8,171	343	121,612
Between one and two years	12,353	334	–	10,716	338	–
Between two and five years	21,911	1,050	–	25,524	1,054	–
Over five years	–	2,998	–	–	3,430	–

#### Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of a gearing ratio. This ratio is calculated as net debt divided by EBITDA. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown on the consolidated balance sheet) less cash and cash equivalents. EBITDA is calculated as operating profit before significant non-recurring items, interest, tax, depreciation and amortisation. The gearing ratio continues to improve ending the year at 0.4 (2010: 0.5) such that no further action has been required.

#### Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The Directors consider that there is a single level of fair value measurement hierarchy.

### 4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

During 2011 and 2010 there were no critical accounting estimates or judgements in relation to the application of the Group's accounting policies.

### 5 Segment information

Management have determined the operating segments based on the reports reviewed by the Executive Directors that are used to make strategic decisions.

The Executive Directors have considered the business from both a geographic and product perspective.

From a geographic perspective, the Executive Directors consider that the Group has six operating segments: i) United Kingdom; ii) Netherlands; iii) Republic of Ireland; iv) Sweden; v) Denmark and vi) Central Europe including Poland, Czech Republic, Hungary, Slovakia, Latvia, Lithuania and Estonia. The United Kingdom, Netherlands, Republic of Ireland, Sweden and Denmark have been aggregated into one reportable segment 'Western Europe' as they have similar economic characteristics as identified in IFRS 8. Central Europe comprises the other reportable segment.

From a product perspective the Executive Directors consider that the Group has only one identifiable product, wholesaling of meat. The Executive Directors consider that no further segmentation is appropriate, as all of the Group's operations are subject to similar risks and returns and exhibit similar long term financial performance.

## Notes to the financial statements

### continued

#### 5 Segment information (continued)

The segment information provided to the Executive Directors for the reportable segments is as follows:

	Western Europe £'000	Central Europe £'000	2011 Total £'000	Western Europe £'000	Central Europe £'000	2010 Total £'000
Total segment revenue	891,453	92,600	984,053	777,717	87,637	865,354
Inter-segment revenue	(2,708)	–	(2,708)	(1,131)	–	(1,131)
<b>Revenue from external customers</b>	<b>888,745</b>	<b>92,600</b>	<b>981,345</b>	<b>776,586</b>	<b>87,637</b>	<b>864,223</b>
<b>Operating profit/segment result</b>	<b>23,152</b>	<b>2,730</b>	<b>25,882</b>	<b>20,786</b>	<b>2,530</b>	<b>23,316</b>
Finance income	204	54	258	83	52	135
Finance costs	(1,432)	(195)	(1,627)	(1,078)	(162)	(1,240)
Income tax expense	(5,388)	(527)	(5,915)	(4,835)	(461)	(5,296)
<b>Profit for the year</b>	<b>16,536</b>	<b>2,062</b>	<b>18,598</b>	<b>14,956</b>	<b>1,959</b>	<b>16,915</b>
Depreciation and amortisation	15,064	1,839	16,903	12,225	1,729	13,954
Additions to non-current assets	19,673	279	19,952	19,603	3,516	23,119
<b>Segment assets</b>	<b>194,376</b>	<b>20,554</b>	<b>214,930</b>	<b>171,042</b>	<b>20,432</b>	<b>191,474</b>
Deferred income tax assets			1,134			1,021
<b>Total assets</b>			<b>216,064</b>			<b>192,495</b>
<b>Segment liabilities</b>	<b>146,867</b>	<b>13,475</b>	<b>160,342</b>	<b>123,965</b>	<b>14,466</b>	<b>138,431</b>
Borrowings			24,711			30,576
Current income tax liabilities			1,101			3,306
Deferred income tax liabilities			641			1,037
<b>Total liabilities</b>			<b>186,795</b>			<b>173,350</b>

Sales between segments are carried out at arm's length. Revenue from external customers reported to the Executive Directors is measured in a manner consistent with that in the income statement.

The Executive Directors assess the performance of each operating segment based on its operating profit. Operating profit is measured in a manner consistent with that in the income statement.

The amounts provided to the Executive Directors with respect to total assets and liabilities are measured in a manner consistent with that of the financial statements. The assets are allocated based on the operations of the segment and their physical location. The liabilities are allocated based on the operations of the segment. The Group interest bearing reorganisation loan is not considered to be a segment liability.

The Group has two principal customers (comprising groups of entities known to be under common control), Tesco and Ahold. These customers are located in the United Kingdom, Netherlands, Republic of Ireland, Sweden and Central Europe including Poland, Czech Republic, Hungary, Slovakia, Latvia, Lithuania and Estonia.

Analysis of revenues from external customers and non-current assets are as follows:

	Revenues from external customers		Non-current assets excluding deferred tax assets	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
<b>Analysis by geographical area</b>				
United Kingdom – country of domicile	259,462	255,125	10,201	11,173
Netherlands	263,384	252,095	11,874	12,820
Sweden	213,363	186,700	4,973	6,921
Republic of Ireland	82,574	81,443	7,419	8,731
Denmark	69,962	1,223	21,258	12,542
Central Europe	92,600	87,637	5,361	7,712
	<b>981,345</b>	<b>864,223</b>	<b>61,086</b>	<b>59,899</b>
<b>Analysis by principal customer</b>				
Customer 1	543,575	494,390		
Customer 2	361,723	361,540		
Other	76,047	8,293		
	<b>981,345</b>	<b>864,223</b>		

## 6 Auditor's remuneration

### Services provided by the Company's auditor and its associates

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditor and its associates:

Group	2011 £'000	2010 £'000
Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements	128	129
Fees payable to the Company's auditors and its associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation	143	143
– Other services pursuant to legislation	43	43
– Services relating to taxation	68	75
– All other services	11	11
Total fees payable to the Company's auditors and its associates	393	401
Fees payable to other auditors in respect of services provided to subsidiary undertakings	50	66

## 7 Expenses by nature

Group	2011 £'000	2010 £'000
Changes in inventories of finished goods and work in progress	(783)	(760)
Raw materials and consumables used	794,123	696,147
Employee benefit expense (note 8)	67,932	54,897
Depreciation, amortisation and impairment charges – owned assets	16,703	13,758
Depreciation, amortisation and impairment charges – leased assets	200	196
Repairs and maintenance expenditure on property, plant and equipment	12,364	10,030
Trade receivables – impairment	(15)	190
Hire of plant and machinery	916	221
Transportation expenses	10,341	11,217
Operating lease payments	6,980	6,751
Foreign exchange losses	476	12
Other expenses	46,226	48,248
<b>Total cost of sales, distribution costs and administrative expenses</b>	<b>955,463</b>	<b>840,907</b>

## Notes to the financial statements

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#### 8 Employee benefit expense

Group	2011 £'000	2010 £'000
<b>Staff costs during the year</b>		
Wages and salaries	57,161	45,674
Social security costs	7,891	7,278
Share options granted to Directors and employees	408	500
Other pension costs	2,472	1,445
	<b>67,932</b>	<b>54,897</b>

	2011 Number	2010 Number
<b>Average number of persons employed (including Executive Directors) during the year by activity</b>		
Production	1,817	1,557
Administration	364	352
	<b>2,181</b>	<b>1,909</b>

Group	2011 £'000	2010 £'000
<b>Key management compensation (including Directors)</b>		
Salaries and short term employee benefits	3,600	3,432
Post-employment benefits	222	188
Share-based payments	286	350
	<b>4,108</b>	<b>3,970</b>

Group	2011 £'000	2010 £'000
<b>Directors' emoluments</b>		
Aggregate emoluments	2,367	2,360
Company contribution to money purchase pension scheme	154	136
	<b>2,521</b>	<b>2,496</b>

Further details of Directors' emoluments and share interests are given in the Remuneration report.

There are no other employees of the Company other than the Directors. Employee expense of the Company amounted to £nil (2010: £nil).

#### 9 Finance income and costs

Group	2011 £'000	2010 £'000
<b>Finance income</b>		
Interest income on short term bank deposits	257	133
Interest on income taxes	1	2
Finance income	<b>258</b>	<b>135</b>
<b>Finance costs</b>		
Bank borrowings	(1,206)	(896)
Finance leases	(229)	(232)
Exchange losses on foreign currency borrowings	(38)	(63)
Other interest expense	(154)	(49)
Finance costs	<b>(1,627)</b>	<b>(1,240)</b>
<b>Finance costs – net</b>	<b>(1,369)</b>	<b>(1,105)</b>

## 10 Income tax expense

Group	2011 £'000	2010 £'000
<b>Current income tax</b>		
Current tax on profits for the year	6,437	6,205
Adjustments to tax in respect of previous years	(47)	98
Total current tax	6,390	6,303
<b>Deferred income tax</b>		
Origination and reversal of temporary differences	(427)	(844)
Adjustments to tax in respect of previous years	(48)	(163)
Total deferred tax	(475)	(1,007)
<b>Income tax expense</b>	<b>5,915</b>	<b>5,296</b>

Deferred tax credited directly to equity during the year in respect of employee share schemes amounted to £79,000 (2010: £194,000).

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the standard rate of UK Corporation Tax of 26.5% (2010: 28%) applied to profits of the consolidated entities as follows:

	2011 £'000	2010 £'000
<b>Profit before income tax</b>	<b>24,513</b>	<b>22,211</b>
Tax calculated at the standard rate of UK Corporation Tax 26.5% (2010: 28%)	6,496	6,219
Expenses not deductible for tax purposes	67	52
Adjustments to tax in respect of previous years	(95)	(65)
Profits taxed at rates other than 26.5% (2010: 28%)	(706)	(972)
Other	153	62
<b>Income tax expense</b>	<b>5,915</b>	<b>5,296</b>

There is no tax impact relating to components of other comprehensive income.

## 11 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options for which a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

Group	Basic	2011 Diluted	Basic	2010 Diluted
Profit attributable to owners of the parent (£'000)	17,199	17,199	15,745	15,745
Weighted average number of ordinary shares in issue (thousands)	69,747	69,747	69,657	69,657
Adjustment for share options (thousands)	–	1,082	–	702
Adjusted weighted average number of ordinary shares(thousands)	69,747	70,829	69,657	70,359
Basic and diluted earnings per share (pence)	24.7	24.3	22.6	22.4

## 12 Dividends

Group	2011 £'000	2010 £'000
Second interim dividend in respect of 2010 paid nil per ordinary share (2010: 5.54p)	–	3,859
Final dividend in respect of 2010 paid 7.4p per ordinary share (2010: 1.22p)	5,160	850
Interim dividend in respect of 2011 paid 3.1p per ordinary share (2010: 2.8p)	2,165	1,950
Total dividends paid	7,325	6,659

The Directors propose a final dividend of 8.0p per share payable on 29 June 2012 to shareholders who are on the register at 1 June 2012. This dividend totalling £5.6m has not been recognised as a liability in these consolidated financial statements.



## Notes to the financial statements

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### 13 Property, plant and equipment

Group	Land and buildings (including leasehold improvements) £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>					
At 4 January 2010	22,054	97,321	9,589	366	129,330
Exchange adjustments	(371)	263	299	–	191
Additions	3,054	19,171	464	155	22,844
Disposals	–	(585)	(139)	(142)	(866)
At 2 January 2011	24,737	116,170	10,213	379	151,499
<b>Accumulated depreciation</b>					
At 4 January 2010	9,152	64,562	7,169	195	81,078
Exchange adjustments	(123)	205	225	–	307
Charge for the year	1,451	10,318	1,245	73	13,087
Disposals	–	(549)	(122)	(138)	(809)
At 2 January 2011	10,480	74,536	8,517	130	93,663
<b>Net book amount</b>					
At 4 January 2010	12,902	32,759	2,420	171	48,252
At 2 January 2011	14,257	41,634	1,696	249	57,836
<b>Cost</b>					
At 2 January 2011	24,737	116,170	10,213	379	151,499
Exchange adjustments	(330)	(3,089)	(299)	(7)	(3,725)
Additions	342	16,969	1,754	14	19,079
Disposals	(12)	(1,739)	(605)	(35)	(2,391)
At 1 January 2012	24,737	128,311	11,063	351	164,462
<b>Accumulated depreciation</b>					
At 2 January 2011	10,480	74,536	8,517	130	93,663
Exchange adjustments	44	(1,816)	(283)	(5)	(2,060)
Charge for the year	2,126	12,642	1,074	81	15,923
Disposals	–	(1,624)	(591)	(28)	(2,243)
At 1 January 2012	12,650	83,738	8,717	178	105,283
<b>Net book amount</b>					
At 1 January 2012	12,087	44,573	2,346	173	59,179

Land and buildings are held under short leaseholds. Details of bank borrowings secured on assets of the Group are given in note 19. Depreciation charges are included within administrative expenses in the income statement.

The cost and net book amount of property plant and equipment in the course of its construction included above comprise land and buildings £nil (2010: £2,905,000) and plant and machinery £3,668,000 (2010: £11,440,000).

Property, plant and equipment include the following amounts where the Group is a lessee under a finance lease:

	2011 £'000	2010 £'000
Cost – capitalised finance leases	3,517	3,576
Accumulated depreciation	(1,395)	(1,225)
Net book amount	2,122	2,351

Included in assets held under finance leases are land and buildings with a net book amount of £2,078,000 (2010: £2,299,000) and plant and machinery with a net book amount of £44,000 (2010: £52,000).

## 14 Intangible assets

Group	Product licences £'000	Computer software £'000	Goodwill £'000	Total £'000
<b>Cost</b>				
At 4 January 2010	8,108	2,984	836	11,928
Exchange adjustments	(289)	141	–	(148)
Additions	47	228	–	275
At 2 January 2011	7,866	3,353	836	12,055
<b>Accumulated amortisation</b>				
At 4 January 2010	7,353	1,924	–	9,277
Exchange adjustments	(263)	111	–	(152)
Charge for the year	355	512	–	867
At 2 January 2011	7,445	2,547	–	9,992
<b>Net book amount</b>				
At 4 January 2010	755	1,060	836	2,651
At 2 January 2011	421	806	836	2,063
<b>Cost</b>				
At 2 January 2011	7,866	3,353	836	12,055
Exchange adjustments	(163)	(237)	–	(400)
Additions	–	873	–	873
At 1 January 2012	7,703	3,989	836	12,528
<b>Accumulated amortisation</b>				
At 2 January 2011	7,445	2,547	–	9,992
Exchange adjustments	(166)	(185)	–	(351)
Charge for the year	386	594	–	980
At 1 January 2012	7,665	2,956	–	10,621
<b>Net book amount</b>				
At 1 January 2012	38	1,033	836	1,907

Amortisation charges are included within administrative expenses in the income statement.

## 15 Investments in subsidiary undertakings

Details of subsidiary undertakings are shown in note 26. Investments in subsidiary undertakings are recorded at cost, which is the fair value of consideration paid.

Company	2011 £'000	2010 £'000
At 2 January 2011 and 1 January 2012	102,985	102,985

## Notes to the financial statements

### continued

#### 16 Inventories

Group	2011 £'000	2010 £'000
Raw materials and consumables	17,478	16,141
Finished goods and goods for resale	4,988	4,205
	<b>22,466</b>	<b>20,346</b>

The cost of inventories recognised as an expense and included in cost of sales amounted to £793,340,000 (2010: £695,387,000). The Group charged £962,000 in respect of inventory write-downs (2010: £60,000). The amount charged has been included in cost of sales in the income statement.

#### 17 Trade and other receivables

	2011 £'000	Group 2010 £'000	2011 £'000	Company 2010 £'000
Trade receivables	95,153	76,158	–	–
Less: provision for impairment of trade receivables	(46)	(63)	–	–
Trade receivables – net	95,107	76,095	–	–
Amounts owed by Group undertakings	–	–	156	195
Amounts owed by related parties (see note 27)	133	188	–	–
Other receivables	4,277	5,547	–	–
Prepayments	4,516	3,258	–	–
	<b>104,033</b>	<b>85,088</b>	<b>156</b>	<b>195</b>

The carrying amount of trade and other receivables are denominated in the following currencies:

Currency	2011 £'000	Group 2010 £'000	2011 £'000	Company 2010 £'000
UK Pound	17,479	15,705	156	195
Euro	42,168	44,089	–	–
Swedish Krona	20,098	18,974	–	–
Danish Krone	17,412	1,175	–	–
Polish Zloty	6,876	5,145	–	–
	<b>104,033</b>	<b>85,088</b>	<b>156</b>	<b>195</b>

The fair values of trade and other receivables are the same as their carrying value. The maximum exposure to credit risk is the fair value of each class of receivable mentioned above.

Trade receivables impaired and the amount of the impairment provision was £46,000 (2010: £63,000). The individually impaired receivables mainly relate to invoices which are in dispute. It was assessed that a portion of the receivables is expected to be recovered. The trade receivables that were impaired were all overdue by more than six months. There were no other trade receivables which were overdue. The other classes within trade and other receivables do not contain impaired assets. The trade receivables which are not impaired or overdue are all less than 30 days old.

Movements on the provision for impairment of trade receivables are as follows:

Group	2011 £'000	2010 £'000
At 2 January 2011	63	101
Provision for receivables impairment	151	190
Receivables written off during the year as uncollectable	(166)	(227)
Exchange differences	(2)	(1)
At 1 January 2012	46	63

## 18 Cash and cash equivalents

	2011 £'000	Group 2010 £'000	2011 £'000	Company 2010 £'000
Cash at bank and on hand	27,345	26,141	14	1

## 19 Borrowings

Group	2011 £'000	2010 £'000
<b>Current</b>		
Bank borrowings	10,318	8,711
Finance lease liabilities	122	117
	10,440	8,828
<b>Non-current</b>		
Bank borrowings	32,740	32,306
Finance lease liabilities	2,875	3,053
	35,615	35,359
<b>Total borrowings</b>	46,055	44,187

Due to the frequent re-pricing dates of the Group's loans, the fair value of current and non-current borrowings is approximate to their carrying amount.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

Currency	2011 £'000	2010 £'000
UK Pound	24,720	30,595
Euro	21,335	13,592
	46,055	44,187

The Group reorganisation loan of £24,711,000 (2010: £30,576,000) is repayable in quarterly instalments by 28 February 2015. Interest is charged at LIBOR plus 1.75% subject to interest rate caps over £17m of borrowings where LIBOR is capped at 4.5%. Other bank borrowings are repayable by 2013 to 2017 with interest charged at EURIBOR plus 1.75%.

Bank borrowings totalling £43,058,000 (2010: £41,017,000) are secured by fixed and floating charges over the assets of the individual Group borrowers and through joint and several guarantees from each active Group undertaking.

The Group has undrawn overdraft and loan borrowing facilities of £19.8m (2010: £21.7m) which expire after one year.

The contractual maturity profile of the Group's borrowings is in note 3.

The minimum lease payments and present value of finance lease liabilities is as follows:

	Minimum lease payments		Present value	
Group	2011 £'000	2010 £'000	2011 £'000	2010 £'000
No later than one year	336	343	122	117
Later than one year and no later than five years	1,394	1,392	2,875	573
Later than five years	2,997	3,430	–	2,480
	4,727	5,165	2,997	3,170
Future finance charges on finance leases	(1,730)	(1,995)	–	–
Present value of finance lease liabilities	2,997	3,170	2,997	3,170

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. The fair value of the Group's finance lease liabilities is £4,406,000 (2010: £4,778,000). The fair values are based on cash flows discounted using the European Central Bank benchmark main refinancing operations fixed interest rate of 1.0% (2010: 1.0%).

## Notes to the financial statements

### continued

#### 20 Trade and other payables

	2011 £'000	Group 2010 £'000	2011 £'000	Company 2010 £'000
Trade payables	112,984	98,360	–	–
Amounts owed to Group undertakings	–	–	14,940	17,244
Amounts owed to related parties (see note 27)	5,662	6,943	–	–
Social security and other taxes	5,058	3,208	–	–
Accruals and deferred income	15,294	16,309	2	4
	138,998	124,820	14,942	17,248

The fair value of trade and other payables are the same as their carrying value.

#### 21 Deferred income tax

	Accelerated capital allowances £'000	Other timing differences £'000	Deferred income tax assets total £'000	Deferred income tax liabilities: Accelerated capital allowances £'000
<b>Group</b>				
At 4 January 2010	436	56	492	(1,596)
Exchange differences	–	–	–	(113)
Income statement charge	553	(24)	529	478
Adjustment in respect of employee share schemes	–	–	–	194
At 2 January 2011	989	32	1,021	(1,037)
Exchange differences	–	–	–	(46)
Income statement (charge)/credit	(380)	413	33	442
Adjustment in respect of employee share schemes	–	80	80	–
At 1 January 2012	609	525	1,134	(641)

Other timing differences principally relates to share-based payments. The deferred income tax liability above includes £400,000 (2010: £650,000) which is estimated will reverse within 12 months. The deferred income tax asset above is not expected to reverse within 12 months.

#### 22 Share capital

	Number of shares (thousands)	2011 £'000	Group 2010 £'000	2011 £'000	Company 2010 £'000
<b>Issued and fully paid ordinary shares of 10p each</b>					
At 2 January 2011	69,657	6,966	6,966	6,966	6,966
Issue of new shares relating to employee incentive schemes	192	19	–	19	–
At 1 January 2012	69,849	6,985	6,966	6,985	6,966

All ordinary shares of 10p each have equal rights in respect of voting, receipt of dividends, and repayment of capital.



## 23 Share-based payment

### Executive share option scheme

Under the Group's executive share option scheme share options are granted to Executive Directors and to selected senior employees. The exercise price of the granted options is equal to the market price of the shares on the date of the grant. The options are exercisable starting three years from the grant date, subject to the Group achieving its target growth in earnings per share over the period plus 3%. The options have a contractual option term of 10 years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

### All employee sharesave scheme

This scheme is open to all eligible employees of the Group (including the Executive Directors) who make regular savings over a three year period. The exercise price of the granted options is equal to the market price of the shares on the date of the grant. The options are exercisable starting three years from the grant date and must be exercised within six months thereafter. No performance conditions are attached to the options granted under the scheme.

Movements in the number of share options outstanding and their related exercise prices are as follows:

	Executive share option Options ( <sup>'000</sup> )	Exercise price (pence)	Options ( <sup>'000</sup> )	2011 Sharesave Exercise price (pence)	Executive share option Options ( <sup>'000</sup> )	Exercise price (pence)	Options ( <sup>'000</sup> )	2010 Sharesave Exercise price (pence)
At 2 January 2011	3,752	203.34	665	173.57	2,670	185.74	487	147.00
Granted	–	–	–	–	1,109	246.00	178	246.00
Exercised	(192)	198.77	–	–	–	–	–	–
Forfeited	(100)	207.61	–	–	(27)	213.96	–	–
<b>At 1 January 2012</b>	<b>3,460</b>	<b>203.47</b>	<b>665</b>	<b>173.57</b>	<b>3,752</b>	<b>203.34</b>	<b>665</b>	<b>173.57</b>

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry date	Type of scheme	Status	Exercise price (pence)	2011 ( <sup>'000</sup> )	Number options 2010 ( <sup>'000</sup> )
June 2012	Sharesave	Not exercisable	147.00	487	487
December 2013	Sharesave	Not exercisable	246.00	178	178
May 2018	Executive share option	Exercisable	199.50	979	1,178
May 2019	Executive share option	Not exercisable	174.75	1,426	1,478
May 2020	Executive share option	Not exercisable	246.00	1,055	1,096

The fair value of options granted during 2010 determined using the Black-Scholes valuation model was 29p to 52p per option. The significant inputs into the model were the exercise price shown above, volatility of 30% to 40% based on a comparison of similar listed companies, dividend yield of 4% to 5%, an expected option life of four years, and an annual risk-free interest rate of 1.77% to 4.4%. See note 8 for the total expense recognised in the income statement for share options granted to Directors and employees.

## Notes to the financial statements

### continued

#### 24 Cash generated from operations

Group	2011 £'000	2010 £'000
Profit before income tax	24,513	22,211
Finance costs – net	1,369	1,105
Operating profit	25,882	23,316
Adjustments for non-cash items:		
Depreciation	15,923	13,087
Amortisation of intangible assets	980	867
Loss/(profit) on disposal of property, plant and equipment	128	(26)
Adjustment in respect of employee share schemes	408	500
Changes in working capital:		
Inventories	(2,670)	(2,822)
Trade and other receivables	(19,762)	(7,186)
Prepaid expenses	(1,339)	140
Trade and other payables	22,734	9,229
Accrued expenses	(596)	(2,966)
Cash generated from operations	41,688	34,139

The parent company has no operating cash flows.

#### 25 Commitments

##### (a) Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	2011 £'000	Group 2010 £'000	2011 £'000	Company 2010 £'000
Property, plant and equipment	3,433	5,682	–	–

##### (b) Operating lease commitments

The Group leases various properties under non-cancellable operating lease arrangements.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Land and buildings		Plant and equipment	
Group	2011 £'000	2010 £'000	2011 £'000	2010 £'000
No later than one year	6,752	6,733	933	823
Later than one year and no later than five years	16,742	25,684	1,928	1,789
Later than five years expiring 2016 to 2023	8,018	10,627	50	–
	31,512	43,044	2,911	2,612

## 26 Subsidiary undertakings

The principal subsidiary undertakings of the Group are:

Subsidiary undertakings	Country of incorporation or registration	Nature of business	(%) Proportion of ordinary shares held by Parent	(%) Proportion of ordinary shares held by Group
Hilton Meats (Retail) Limited	Northern Ireland	Specialist meat packing	–	100
Hilton Meats Zaandam BV	Netherlands	Specialist meat packing	–	80
Hilton Foods (Ireland) Limited	Republic of Ireland	Specialist meat packing	–	100
HFG Sverige AB	Sweden	Specialist meat packing	–	100
Hilton Foods Danmark A/S	Denmark	Specialist meat packing	–	100
Hilton Foods Limited Sp zoo	Poland	Specialist meat packing	–	100
Hilton Foods Limited	Northern Ireland	Holding company	100	–
Hilton Meats Holland Limited	Northern Ireland	Holding company	–	80
Hilton Food Group (Europe) Limited	Northern Ireland	Holding company	–	100

All subsidiary undertakings are included in the consolidation. The Company's voting rights in its subsidiary undertakings are the same as its effective interest in its subsidiary undertakings.

## 27 Related party transactions and ultimate controlling party

The Directors do not consider there to be one ultimate controlling party. The companies noted below are all deemed to be related parties by way of common Directors.

Sales and purchases made on an arm's length basis on normal credit terms to related parties during the year were as follows:

Group	2011 £'000	Sales 2010 £'000	2011 £'000	Purchases 2010 £'000
Hilton Meats (International) Limited	2,435	2,131	55,500	56,706
Romford Wholesale Meats Limited	–	–	47,104	44,487
RWM Dorset Limited	–	–	15,795	20,947

Amounts owing from and to related parties at the year end were as follows:

Group	Owed from related parties 2011 £'000	2010 £'000	Owed to related parties 2011 £'000	2010 £'000
Hilton Meats (International) Limited	133	188	2,911	2,831
Romford Wholesale Meats Limited	–	–	1,930	2,645
RWM Dorset Limited	–	–	821	1,467
	133	188	5,662	6,943

The ultimate shareholders of all of the above companies have an interest in the share capital of the Company. Romford Wholesale Meats Limited and RWM Dorset Limited ceased to be related parties during 2011.

The Company's related party transactions with other Group companies during the year were as follows:

Company	2011 £'000	2010 £'000
Hilton Foods Limited – dividend received	9,500	14,852
Hilton Foods Limited – interest expense	432	557
Hilton Meats (Retail) Limited – payment for group relief	156	195

At the year-end £14,940,000 (2010: £17,244,000) was owed to Hilton Foods Limited and £156,000 (2010: £195,000) was owed by Hilton Meats (Retail) Limited.

Details of key management compensation are given in note 8.

## Notes to the financial statements

### continued

#### 28 Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

Group	Loans and receivables	
	2011 £'000	2010 £'000
<b>Assets as per balance sheet</b>		
Trade and other receivables	99,517	81,830
Cash and cash equivalents	27,345	26,141
	<b>126,862</b>	107,971

Group	Other financial liabilities at amortised cost	
	2011 £'000	2010 £'000
<b>Liabilities as per balance sheet</b>		
Trade and other payables	133,940	121,612
Borrowings	46,055	44,187
	<b>179,995</b>	165,799

In addition to the above, amounts owed to the Company by Group undertakings of £156,000 (2010: £195,000) are classified as 'loans and receivables' and amounts owed by the Company to Group undertakings of £14,940,000 (2010: £17,244,000) are classified as 'other financial liabilities at amortised cost'.

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