# VION Food Scotland Limited

Directors' report and financial statements

Registered number SC030981

31 December 2012



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# Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2012.

The financial statements have been prepared for the 52 week trading period from 1 January 2012 to 29 December 2012. The comparative period is for the 52 week trading period ended 31 December 2011.

**Registered Number**

The company's registered number is SC030981.

**Principal Activities, Trading Review and Future Developments**

The principal activities of the company during the year were the rearing of pigs and processing of meat products.

The profit and loss account on page 8 shows a loss for the year of £114,267,000 (2011: £8,481,000).

The directors do not recommend the payment of a dividend (2011: £Nil).

**Business Review**

During 2012, VION announced its new strategy to return to its core markets, focussing entirely on its food operations in the Netherlands and Germany and on its global ingredients business. The new strategy meant that VION would be divesting all its food activities in the UK and a number of non-core activities. It will then look to achieve full operational, organisational and legal independence for the remaining Food (active in the Netherlands, Germany and a number of export markets) and Ingredients (active globally) businesses.

The divestment of the UK operations was a key part of the new course for the Food business, based on the fact that the acquisitions and the increase in scale at Food over the past decade have not delivered the expected operational synergies and financial performance. Combined with the poor market conditions in the European pork sector, this has forced the company to take some difficult but necessary decisions.

On 12 December 2012, VION reached an agreement for a management buy-out of its UK Pork operations, securing around 4,000 jobs. This deal completed on 8 January 2013.

On 8 March 2013, VION completed a deal with Amber Real Estate Investments Limited and Boparan Holdings Limited, the holding company for 2 Sisters Food Group, for the sale of its Red Meat and Poultry activities securing a viable future for these businesses.

Following these disposals, and in line with the global VION strategy, the operations in the UK are progressing with an orderly wind down of activities and full exit from the UK food market.

On 5 July 2012 VION announced that it could be forced to close its loss making site, Hall's of Broxburn, employing more than 1,700 people, despite investing heavily in the site over the last four years. The site had continued to record unsustainable losses, in spite of significant capital expenditure and major restructuring exercises. A 90 day consultation exercise began on 5 July 2012 with its unions and workers. The decision was made on 15 October 2012 for a phased closure of the plant resulting in loss of employment for all employees. Production ceased in February 2013, and the phased decommissioning and site demolition followed.

**Corporate Governance**

VION is managed by an Executive Board which is supervised by an independent Supervisory Board. VION Food UK is managed by a UK Board of directors comprising executive and independent non-executive members from both the UK and The Netherlands. The UK governance structure has been scaled back following the divestment of the trading activities, and appropriate oversight is in place to supervise the orderly exit from the UK operations.

*Risk management and internal controls*

VION has opted to use the COSO model for its risk management and its controls. The policy in respect of risk management is laid down by the Risk Committee, consisting of the COOs of the divisions, and chaired by the CFO.

The model is in line with VION's decentralised management philosophy, which gives operational units scope to fill in the details of their responsibilities, within a predefined framework.

## Directors' report *(continued)*

Business operations and results are controlled by means of process descriptions, monitoring, self-assessments, and audits. Monitoring takes place on the basis of a predefined planning and control system, as part of which the companies are assessed and compared to each other by means of key performance indicators, their results, and the cash flow generated.

The processes are laid down in the various management systems. Most operational processes are coupled to systems to assure quality and food safety, e.g. ISO, IFS and HACCP. The financial processes are laid down in the VION Accounting Manual, and in specific process descriptions for the various individual entities. The functioning of the controls is assessed by means of Control Review Self Assessments. As part of these assessments, the management responsible for the company in question confirms the configuration and operation of the management and control measures, and signs a Letter of Representation.

Operational and financial audits are managed largely by VION's Internal Audit Department which conducts audits on processes and financial reporting. The strength and effectiveness of Internal Audit is such that to a large extent, the external auditor bases his findings on the reports and files of Internal Audit. The findings of the Internal Audit Department are reported to the local management, with copies going to the Executive Board and senior management. In addition, the main findings, and the external auditor's findings, are discussed with the Audit Committee of the Supervisory Board.

*Strategic risks*

The strategic risks for VION have been identified, their probability and consequences have been assessed, and suitable measures have been taken to mitigate the consequences where possible. The main strategic risks come from the international market situation, in terms of both supply and demand.

It is the result of these strategic risks that have resulted in VION reassessing its global operations and proceeding with the above mentioned strategic changes.

*Operational risks*

The main operational risks are quality, safety, and environmental risks.

Quality is assured by the continuous control of food safety and product specifications. This control is laid down in ISO 9000, GMP, and the HACCP systems, with many sites being subject to additional testing by government, independent certifying bodies, and buyers. To assure safety, the structural 'Risk Engineering' programme has been continued in all companies. Under the terms of this programme, measures are taken in respect of technical systems, preventative maintenance, and technical procedures. In addition, the company complies with the environmental directives of the European Commission, and several companies are also ISO 14001 certified.

*Financial risks and internal audit*

The financial risks can be divided into risks concerning reporting and other risks. The reliability of annual reports is assured because guidelines for financial reporting have been laid down in the VION Accounting Manual. Since they are based on generally applicable guidelines, they can be used all over the world. Furthermore, a set of key controls is implemented leading to a framework for internal control over financial reporting. The effectiveness of various key controls is tested two times a year.

The scale and geographical spread represent fiscal risks for VION. These risks may for example be due to uncertainties in the transfer pricing methodology in relation to internal goods and services transactions. Other risks that can affect VION are uncertainties associated with mergers and/or acquisitions, uncertainties arising from permanent establishments, and uncertainties due to losses carried forward and other tax credits carried forward. Uncertainties also arise as a result of changes in tax regulations. Because these uncertainties may have a material impact on local tax results and hence on VION's net income, VION takes proactive measures to reduce the financial impact.

A policy for interest rate risk is laid down by the Treasury Committee and in line with this policy, the risks of any transactions entered into and positions taken up for the main currencies are hedged by interest rate swaps. The main currencies for the company are the Euro, British Pound, Chinese Yuan, and U.S. Dollar

*Compliance risks*

The compliance risks that the company may confront have been identified and described in the Enterprise Risk Management system. It is the company's policy to comply with the relevant legislation and regulations, and the company also promotes this principle among its subsidiaries.

## Directors' report *(continued)*

*Risks and uncertainties*

The company monitors cash flow as part of its day to day control procedures. Regular consideration of the company's cash flow projections enables management to ensure that the company operates within the committed funding available to it.

*Key performance indicators*

The company utilises a number of production and various manufacturing efficiency indicators to monitor and improve the company's performance.

The company closely monitors raw material costs and customer pricing on a product by product basis to ensure adequate margins are maintained.

**Parent Company**

The directors consider VION Food Group Limited to be the immediate parent company at the balance sheet date.

The directors consider VION Holding NV to be the ultimate parent company at the balance sheet date.

**Political and charitable donations**

The company made no political or charitable donations during the year.

**Post Balance Sheet Events**

Following the year end, on 30 December 2012 the company entered into an agreement to transfer its poultry business operations and assets to VION Agriculture Limited and its red meat business operations and assets to VION Food Wales & West England Limited, fellow group companies at the time of the transaction. Effective responsibility for ongoing operations and management of the poultry and red meat sites transferred to VION Agriculture Limited and VION Food Wales & West England Limited respectively on 30 December 2012. In addition the employees of these sites transferred under TUPE arrangements to VION Agriculture Limited and VION Food Wales & West England Limited.

On 15 February 2013 the company entered into an agreement to acquire the Welsh Country Foods site business operations and assets from VION Food Wales & West England Limited, a fellow group company at the time of the transaction. Effective responsibility for ongoing operations and management of this site transferred to the Company on 15 February 2013. In addition the employee's of this site transferred under TUPE arrangements to the Company.

Prior to the acquisition of Welsh Country Foods an announcement was made by VION Food Wales & West England Limited on 11 January 2013 that it could be forced to close its lamb processing business at Gaerwen. This was following a decision by its key customer to consolidate its fresh lamb business with an alternative supplier. A consultation process began immediately with the workforce and union representatives at Gaerwen. The decision to close the plant was taken by VION Food Scotland Limited on 11 April 2013 with immediate effect. All production had ceased by the end of April 2013. The sale of the Gaerwen site completed on 19 July 2013.

Following the decision made in October 2012, production at the Halls site ceased in February 2013. A phased decommissioning of the site, followed by site demolition, commenced shortly thereafter.

**Employment of disabled persons**

The company employs disabled persons who are able to fulfil the required duties and such disabled persons share the same opportunities for training and career progression as other employees.

## Directors' report *(continued)*

**Directors**

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

| | |
|---|---|
| A M Christiaanse | (resigned 1 February 2012) |
| S R W Francis | (resigned 16 March 2012) |
| L A M Vernaus | (resigned 9 April 2013) |
| P J Miller | (resigned 25 June 2013) |
| J J Peralta | (resigned 25 June 2013) |
| M A Steven | (resigned 25 June 2013) |
| M Kusters | (appointed 1 March 2012, resigned 25 March 2013) |

P M J Beckers and L B Abbitt were appointed as directors on 25 June 2013.

The directors benefit from qualifying third party indemnity provisions which continued in place from their appointment and at the date of this report or to the date of resignation.

**Disclosure of information to auditors**

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

**Auditors**

BDO LLP have expressed their willingness to continue in office. A resolution to re-appoint them will be proposed at the annual general meeting.

On behalf of the board

**P M J Beckers**
*Director*

Unit 1.18
Alba Innovation Centre
Alba Campus
Livingston
EH54 7GA
19 December 2013

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year.

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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Independent auditors' report to the member of VION Food Scotland Limited

We have audited the financial statements of VION Food Scotland Limited for the year ended 31 December 2012 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the note of historical cost profits and losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

**Respective responsibilities of directors and auditors**

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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 Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

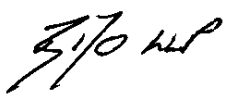
**Opinion on other matters prescribed by the Companies Act 2006**

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

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

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

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



**Ian Beaumont (senior statutory auditor)**
**For and on behalf of BDO LLP, statutory auditor**
1 Bridgewater Place, Water Lane, Leeds, LS11 5RU
United Kingdom
19 December 2013

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

## Profit and loss account

*for the year ended 31 December 2012*

| | Note | 2012 £000 | 2011 £000 |
|---|---|---|---|
| **Turnover** | 2 | **465,106** | 444,592 |
| Change in stocks of finished goods and goods for resale | | **555** | 1,581 |
| Raw materials and consumables | | **(350,957)** | (321,357) |
| Staff costs | 9 | **(66,507)** | (58,546) |
| Depreciation and other amounts written off tangible and intangible fixed assets | 3 | **(56,222)** | (7,077) |
| Other operating charges | 3 | **(99,054)** | (86,262) |
| | | **(572,185)** | (471,661) |
| **Operating loss before exceptional items** | | **(41,448)** | (25,281) |
| Exceptional items | 4 | **(65,631)** | (1,788) |
| **Operating loss** | | **(107,079)** | (27,069) |
| Interest payable and similar charges | 8 | **(1,819)** | (1,868) |
| **Loss on ordinary activities before taxation** | 3 | **(108,898)** | (28,937) |
| Taxation (charge)/credit on loss on ordinary activities | 10 | **(5,369)** | 20,456 |
| **Loss for the financial year** | 21 | **(114,267)** | (8,481) |

All figures relate to discontinued operations.

The notes on pages 11 to 24 form part of these financial statements.

## Statement of total recognised gains and losses and note of historical cost profits and losses

*for the year ended 31 December 2012*

| | 2012 £000 | 2011 £000 |
|---|---|---|
| **Statement of total recognised gains and losses** | | |
| Loss for the financial year | **(114,267)** | (8,481) |
| Revaluation of tangible fixed assets | - | 10,666 |
| Impairment of tangible fixed assets | **(17,503)** | - |
| **Total gains and losses recognised since last financial statements** | **(131,770)** | 2,185 |

| | 2012 £000 | 2011 £000 |
|---|---|---|
| **Note of historical cost profits and losses** | | |
| Reported loss on ordinary activities before taxation | **(108,898)** | (28,937) |
| Difference between actual and historical cost depreciation charge | **975** | 382 |
| **Historical cost loss on ordinary activities before taxation** | **(107,923)** | (28,555) |
| **Historical cost loss on ordinary activities after taxation** | **(113,292)** | (8,099) |

The notes on pages 11 to 24 form part of these financial statements.

## Balance sheet
*at 31 December 2012*

| | Note | 2012 | | 2011 | |
|---|---|---|---|---|---|
| **Fixed assets** | | **£000** | **£000** | £000 | £000 |
| Tangible assets | *12* | | **24,698** | | 93,497 |
| **Current assets** | | | | | |
| Stocks | *13* | **9,060** | | 26,160 | |
| Debtors | *14* | **108,149** | | 70,128 | |
| Cash at bank and in hand | | **120** | | 35,710 | |
| | | **117,329** | | 131,998 | |
| **Creditors:** amounts falling due within one year | *15* | **(91,647)** | | (131,857) | |
| **Net current assets** | | | **25,682** | | 141 |
| **Total assets less current liabilities** | | | **50,380** | | 93,638 |
| **Creditors:** amounts falling due after more than one year | *16* | | **(78,000)** | | (78,000) |
| **Accruals and deferred income** | *17* | | **(128)** | | (208) |
| **Provisions** | *18* | | **(8,592)** | | - |
| **Net assets** | | | **(36,340)** | | 15,430 |
| **Capital and reserves** | | | | | |
| Called up share capital | *19* | | **89,180** | | 9,180 |
| Revaluation reserves | *20* | | **-** | | 18,478 |
| Profit and loss account | *20* | | **(125,520)** | | (12,228) |
| **Shareholders' funds** | *21* | | **(36,340)** | | 15,430 |

The notes on pages 11 to 24 form part of these financial statements.

These financial statements were approved by the board of directors and authorised for issue on 19 December 2013 and were signed on its behalf by:

**P M J Beckers**
*Director*

**L B Abbitt**
*Director*

# Notes

*(forming part of the financial statements)*

## 1 Accounting policies

***Basis of preparation***

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention, as modified by the revaluation of land, buildings and plant and machinery.

The directors of the Company have considered the current financial position of the Company, the forecasted future funding requirements and the support available from its parent company. On this basis, the directors consider that the Company will have sufficient funds available to meet liabilities as they fall due for the foreseeable future and therefore consider that it remains appropriate to prepare the financial statements on a going concern basis.

The financial statements have been prepared for the 52 week trading period from 1 January 2012 to 29 December 2012. The comparative period is for the 52 week trading period ended 31 January 2011.

The company is exempt from the requirements of FRS 1 *Cashflow Statements* to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of a parent undertaking which has produced a cash flow statement.

As the company is a wholly owned subsidiary of VION Holding NV, it has taken advantage of the exemption contained in FRS 8 *Related Party Disclosures* and has therefore not disclosed separately the transactions or balances with entities which form part of the group.

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

***Turnover***

Turnover represents sales to external customers at invoiced amounts less value added tax. Turnover is recognised when the risks and rewards of owning the goods has passed to the customer which is generally on delivery.

***Fixed assets and depreciation***

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated economic lives as follows:

| | | |
|---|---|---|
| Freehold buildings | - | 3.3% |
| Plant and machinery | - | 10% to 20% |
| Motor vehicles | - | 25% |

No depreciation is provided on freehold land.

An amount equal to the excess of the annual depreciation charge on revalued assets over the notional historical cost depreciation charge on those assets is transferred annually from the revaluation reserve to the profit and loss reserve.

The profit or loss on the disposal of a tangible fixed asset is accounted for in the profit and loss account of the period in which the disposal occurs as the difference between the net sale proceeds and the carrying amount, whether carried at historical cost (less any provisions made) or at a valuation.

FRS 15 *Tangible Fixed Assets* requires fixed assets which are carried at revalued amounts to be shown at their current value at the balance sheet date. To achieve this land and buildings and plant and machinery are subject to a full valuation every five years with an interim valuation carried out in the third year of this cycle.

The profit or loss on disposal of revalued fixed assets is calculated by reference to net book value and any realised revaluation surplus is transferred to the profit and loss account through reserves.

## Notes *(continued)*

### 1 Accounting policies *(continued)*

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

***Pension costs***
The company participates in a defined contribution pension scheme. The assets of the scheme are held separately from the participating companies in independently administered funds. The amount charged to the profit and loss account represents contributions payable to the scheme in respect of the accounting period.

***Stocks***
Stocks are stated at the lower of cost and net realisable value. Cost is defined as average invoice cost of production including attributable overheads. Net realisable value is taken as estimated sales proceeds less selling costs.

***Government grants***
Capital based government grants are included within accruals and deferred income in the balance sheet and credited to operating profit over the estimated useful economic lives of the assets to which they relate.

***Foreign currencies***
Transactions in foreign currencies are recorded using the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

***Taxation***
The charge for taxation is based on the result for the year and takes into account deferred tax. Deferred tax is recognised undiscounted in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date. The recognition of deferred tax assets is limited to the extent that the company anticipates recovery of the asset with reasonable certainty.

***Provisions***

Provisions are recognised when the company has a present obligation, either legal or constructive, as a result of a past event, where it is probable that a transfer of economic benefit will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation.

### 2 Turnover

The turnover and result is attributable mainly to the rearing of livestock for slaughter, the processing and retail packaging of meat and meat wholesaling. An analysis of turnover by geographical market is as follows:

| | **2012** | 2011 |
|---|---|---|
| | **£000** | £000 |
| United Kingdom | **457,647** | 438,275 |
| Rest of Europe | **7,328** | 4,351 |
| Rest of World | **131** | 1,966 |
| | **465,106** | 444,592 |

## Notes *(continued)*

### 3 Loss on ordinary activities before taxation

| | 2012 £000 | 2011 £000 |
|---|---|---|
| *Loss on ordinary activities before taxation is stated after charging/(crediting):* | | |
| Depreciation written off tangible fixed assets: | | |
| Owned | **8,012** | 7,625 |
| Grant release | **(33)** | (225) |
| Gain on disposal of fixed assets | **-** | (323) |
| Impairment of tangible fixed assets | **48,243** | - |
| Auditors' remuneration: | | |
| Audit of these financial statements | **41** | 33 |
| Rentals payable under operating leases: | | |
| Land and buildings | **76** | 853 |
| Plant and machinery | **722** | 1,724 |
| Other assets | **184** | 227 |

### 4 Exceptional items

The following exceptional costs have been identified during the year:

| | 2012 £000 |
|---|---|
| Costs in relation to the Hall site closure | **48,414** |
| Impairment of Red Meat and Poultry fixed assets | **18,173** |
| Other impairment charges | **311** |
| Settlement of legal dispute | **(1,267)** |
| Total | **65,631** |

During the year, costs have been incurred, and a restructuring provision has been recognised, in relation to the closure of the Halls site. Following a 90 day consultation, the phased closure of the site began in October 2012. Costs incurred and provided for are as follows:

| | 2012 £000 |
|---|---|
| Stock write offs | **3,400** |
| Redundancy costs | **9,696** |
| Impairment of fixed assets | **29,760** |
| Other closure costs | **5,558** |
| Total | **48,414** |

In addition to these costs, a further £8,846,000 of impairment on the Halls site was taken directly to the revaluation reserve.

## Notes *(continued)*

### 4 Exceptional items *(continued)*

On 30 December 2012 the company entered into an agreement to transfer its red meat and poultry business operations and assets to another group company. This transfer was executed at market value, and as a result an impairment charge of £18,173,000 was recognised in the profit and loss account and a further £8,657,000 of impairment was taken directly to the revaluation reserve.

As referred to in note 6, the company was involved in a legal restructuring program, in which various assets were transferred to other companies in the group. These transfers were executed at market value. As a result, £311,000 of impairment charges were incurred by the company.

On 24 January 2012 the company, along with certain other group companies, negotiated the settlement of a legal dispute. This settlement resulted in the company receiving £1,267,000 in respect of final settlement of the claims made by the company and its fellow group companies.

In the prior year, exceptional costs related to the restructuring of the sausage business:

| | 2011<br>£000 |
|---|---|
| Customer related costs | 662 |
| Stock write offs | 106 |
| Redundancy costs | 350 |
| Impairment of fixed assets | 489 |
| Other closure costs | 181 |
| Total | 1,788 |

### 5 Remuneration of directors

The aggregate emoluments of A M Christiaanse, S R W Francis, M A Steven and M Kusters were borne by VION Food Group Limited. The aggregate emoluments of L A M Vernaus were borne by VION Holding NV. The appropriate disclosure of their remuneration is disclosed in the accounts of those companies but it has not been practical to allocate their remuneration between their services as executives of this company and other group companies.

The aggregate emoluments of the remaining directors were jointly incurred by other operating group companies for their services as directors of this company and the other group operating companies. It has not been practical to allocate their remuneration between the services as directors of this company and of the other companies. Consequently their total remuneration across the UK division is disclosed below. The other companies for which these directors principally provide services for are VION Food Wales & West England Limited and VION Food UK Limited.

## Notes *(continued)*

### 5 Remuneration of directors *(continued)*

The aggregate emoluments of the remaining directors were:

| | 2012 | 2011 |
|---|---|---|
| | £000 | £000 |
| Directors' emoluments | 742 | 602 |
| Compensation for loss of office | - | - |
| Company pension contributions to money purchase schemes | 13 | 27 |
| | 755 | 629 |

The highest paid director received emoluments of £281,000 *(2011: £301,000)* and pension contributions of £Nil *(2011: £14,000)*. There were two *(2011: two)* directors in the groups defined contribution pension scheme during the year.

### 6 Discontinued operations and disposals

On 7 December 2012 the company entered into a transaction to dispose of the trade and assets of Brydock Farm and Mill to VION Food UK Limited. The company transferred fixed assets, totalling £2,462,000 net book value, and various ancillary operating net assets held at the date of transfer, totalling £1,433,000 book value. The employees of these sites transferred under TUPE arrangements to VION Food UK Limited.

Following this transfer the remaining sites had either ceased trading activities, been announced for closure or were sold to another group company following the balance sheet date. As a result all operations in the profit and loss account have been classified as discontinued.

### 7 Acquisitions

On 7 December 2012 the company entered into a transaction to acquire certain sites from VION Food UK Limited. The company acquired fixed assets for a total consideration of £2,487,000, and various ancillary operating net liabilities held at the date of transfer, for negative consideration of £38,949,000. The considerations were settled in cash and in full. The total consideration paid is equal to the fair value of the net assets acquired and consequently no goodwill arises on acquisition.

The employees involved in the operations of the transferred sites were transferred under TUPE arrangements.

The sites acquired from VION Food UK Limited did not continue to trade following their transfer.

### 8 Interest payable and similar charges

| | 2012 | 2011 |
|---|---|---|
| | £000 | £000 |
| Interest on long term loans | 1,806 | 1,843 |
| Other interest payable | 40 | 12 |
| Exchange (gain)/loss | (27) | 13 |
| | 1,819 | 1,868 |

## 9 Staff numbers and costs

The average number of persons employed by the company during the year, analysed by category, was as follows:

| | Number of employees 2012 | 2011 |
|---|---|---|
| Management and administration | 313 | 247 |
| Production | 2,588 | 2,353 |
| Sales and distribution | 75 | 148 |
| | 2,976 | 2,748 |

The aggregate payroll costs of these persons were as follows:

| | 2012 £000 | 2011 £000 |
|---|---|---|
| Wages and salaries | 51,073 | 52,849 |
| Social security costs | 4,734 | 4,721 |
| Pension costs | 1,004 | 976 |
| Redundancy costs | 9,696 | - |
| | 66,507 | 58,546 |

## 10 Taxation

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| *UK corporation tax* | | | | |
| Group relief – current year | (307) | | (19,600) | |
| Total current tax credit | | (307) | | (19,600) |
| *Deferred tax* | | | | |
| Origination and reversal of timing differences | 4,881 | | (1,285) | |
| Adjustments in respect of prior periods | 360 | | 62 | |
| Change in tax rate | 435 | | 367 | |
| Total deferred tax charge/(credit) | | 5,676 | | (856) |
| **Tax charge/(credit) on loss on ordinary activities** | | 5,369 | | (20,456) |

## Notes *(continued)*

### 10 Taxation *(continued)*

*Factors affecting current tax credit for the year*

The tax credit for the year is lower *(2011: higher)* than that obtained by applying the standard rate of corporation tax in the UK of 24% *(2011: 26%)* to the loss before tax. The differences are explained below:

| | **2012** | 2011 |
|---|---|---|
| | **£000** | £000 |
| Loss on ordinary activities before taxation | **(108,898)** | (28,937) |
| Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 24% *(2011: 26%)* | **(26,135)** | (7,524) |
| *Effects of:* | | |
| Income disallowable for tax purposes | **(8)** | (59) |
| Expenses disallowed for tax purposes | **16,248** | 1,260 |
| Capital allowances for year (in excess of)/ lower than depreciation | **1,032** | 1,123 |
| Industrial buildings allowances | **-** | (16) |
| Group relief adjustments | **7,590** | (14,384) |
| Unrelieved losses in current period | **966** | - |
| **Current tax credit for year (see above)** | **(307)** | (19,600) |

### 11 Investments

The company continues to hold a 100% investment in Scottish Pork Limited. The company is non-trading and is registered in Scotland. The company's investment carrying value is £Nil *(2011: £Nil)*.

On 4 February 2013, the company acquired the entire share capital of Mayhew Country Chickens Limited, Thorne Poultry Limited, and Grampian Country Chickens Limited from Grampian Country Chickens (Fresh) Limited. The share capital was acquired for a total consideration of £17,597,618 (Mayhew Country Chickens Limited - £2,910,633, Thorne Poultry Limited - £12,661,931, Grampian Country Chickens Limited - £2,025,054).

On 28 November 2013, Scottish Pork Limited, Mayhew Country Chickens Limited, and Grampian Country Chickens Limited were entered into Members Voluntary Liquidation.

## Notes *(continued)*

### 12 Tangible fixed assets

| | Land and buildings £000 | Plant, machinery and motor vehicles £000 | Total £000 |
|---|---|---|---|
| *Cost or valuation* | | | |
| At beginning of year | 90,698 | 91,476 | 182,174 |
| Additions | 4 | 7,202 | 7,206 |
| Disposals | (2,119) | (6,344) | (8,463) |
| Impairment | (17,503) | - | (17,503) |
| Transfers to group companies | - | (3,443) | (3,443) |
| Transfers from group companies | - | 490 | 490 |
| Acquisitions from group companies (refer note 7) | 17,037 | 132 | 17,169 |
| At end of year | 88,117 | 89,513 | 177,630 |
| *Depreciation* | | | |
| At beginning of year | 21,685 | 66,992 | 88,677 |
| Charge for year | 3,573 | 4,439 | 8,012 |
| Disposals | (862) | (5,120) | (5,982) |
| Impairment | 39,473 | 8,770 | 48,243 |
| Transfers to group companies | - | (932) | (932) |
| Transfers from group companies | - | 232 | 232 |
| Acquisitions (refer note 7) | 14,545 | 137 | 14,682 |
| At end of year | 78,414 | 74,518 | 152,932 |
| *Net book value* | | | |
| **At 31 December 2012** | **9,703** | **14,995** | **24,698** |
| At 31 December 2011 | 69,013 | 24,484 | 93,497 |

Included within fixed assets is land with a value of £3,550,000 *(2011: £8,860,000)* which is not depreciated.

The companies land and buildings are carried at fair value. The last full valuation was performed in 2008 by Arcadis and NB Real Estate, giving a valuation of £30,075,000 and a surplus of £8,833,000. In accordance with FRS 15 Tangible Fixed Assets, the company has performed an interim valuation as part of the five year valuation cycle. The interim valuation performed as at 31 December 2011 was performed by Rydens LLP, giving a valuation of £68,610,000 and a surplus of £10,913,000.

The companies plant and machinery are carried at fair value. The last full valuation was performed in 2008 by Arcadis and Hickman Shearer, giving a valuation of £11,300,000 and a surplus of £196,000. In accordance with FRS 15 Tangible Fixed Assets, the company has performed an interim valuation as part of the five year valuation cycle. The interim valuation performed as at 31 December 2011 was performed by Thainstone Auction Specialists Limited, giving a valuation of £23,564,000 and a deficit of £247,000.

Valuations are based on existing use value and depreciated replacement cost for specialised property and plant. The surpluses and deficits have been credited to the revaluation reserve.

At the year end the directors considered impairment of fixed assets on the basis that a decision had been made to divest of the VION UK business. The recoverable amount of the fixed asset was determined based upon net relisable value. The post year end disposal values of the trading sites provided an indication of the net realisable value that existed at the year end date.

## Notes *(continued)*

### 12 Tangible fixed assets *(continued)*

The historical cost of previously revalued land and buildings and plant and machinery is:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **Land and buildings £000** | **Plant and machinery £000** | Land and buildings £000 | Plant and machinery £000 |
| Cost | **85,141** | **89,541** | 70,528 | 91,504 |
| Accumulated depreciation based on historical cost | **(75,438)** | **(74,546)** | (20,107) | (66,905) |
| Historical cost net book value | **9,703** | **14,995** | 50,421 | 24,599 |

### 13 Stocks

| | **2012 £000** | 2011 £000 |
|---|---|---|
| Livestock | **-** | 8,484 |
| Raw materials and consumables | **5,427** | 9,645 |
| Finished goods and goods for resale | **3,633** | 8,031 |
| | **9,060** | 26,160 |

There is no material difference between the replacement cost of stocks and the amounts stated above.

### 14 Debtors

| | **2012 £000** | 2011 £000 |
|---|---|---|
| Trade debtors | **13,904** | 25,437 |
| Other debtors | **1,593** | 2,161 |
| Prepayments and accrued income | **350** | 452 |
| Amount owed by group undertakings | **91,995** | 16,681 |
| Deferred tax | **-** | 5,797 |
| Group relief recoverable | **307** | 19,600 |
| | **108,149** | 70,128 |

## Notes *(continued)*

### 14 Debtors *(continued)*

All amounts included above are due within one year with the exception of those amounts relating to deferred tax.

| | Deferred Taxation £000 |
|---|---|
| Asset at beginning of year | 5,797 |
| Deferred tax charged to profit and loss for the period | (5,677) |
| Derecognised on disposal of business | (120) |
| **Deferred tax asset at end of year** | - |

The elements of deferred taxation are as follows:

| | 2012 £000 | 2011 £000 |
|---|---|---|
| Differences between accumulated depreciation and amortisation and capital allowances | - | 5,509 |
| Other timing differences | - | 288 |
| | - | 5,797 |

At the year end there were unprovided deferred tax assets of £1,151,000 in respect of tax losses.

### 15 Creditors: amounts falling due within one year

| | 2012 £000 | 2011 £000 |
|---|---|---|
| Bank overdraft | **56,941** | 26 |
| Trade creditors | **16,253** | 37,839 |
| Other taxes and social security | **1,425** | 1,630 |
| Accruals and deferred income | **7,694** | 9,962 |
| Amount owed to group undertakings | **9,334** | 82,400 |
| | **91,647** | 131,857 |

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

| | 2011 £000 | 2011 £000 |
|---|---|---|
| Intercompany loan | **78,000** | 78,000 |

## Notes *(continued)*

### 17 Accruals and deferred income

| | 2012 £000 | 2011 £000 |
|---|---|---|
| *Capital grants* | | |
| At beginning of year | 208 | 276 |
| Released to profit and loss account | (33) | (225) |
| Transferred to group companies (refer Note 7) | (47) | 157 |
| **At end of year** | **128** | 208 |

### 18 Provisions

| | 2012 £000 | 2011 £000 |
|---|---|---|
| *Restructuring provision* | | |
| At beginning of year | - | - |
| Provided for during the year | 14,350 | - |
| Costs incurred in the year | (5,758) | - |
| **At end of year** | **8,592** | - |

A provision in respect of the redundancy and closure costs in relation to the closure of the Halls operating facility was made during the year.

### 19 Called up share capital

| | 2012 £000 | 2011 £000 |
|---|---|---|
| ***Authorised*** | | |
| 89,180,000 (*2011: 9,200,000*) ordinary shares of £1 each | **89,180** | 9,200 |
| ***Allotted, issued, and fully paid*** | | |
| 89,180,000 (*2011: 9,180,000*) ordinary shares of £1 each | **89,180** | 9,180 |

On 14 August 2012, the company issued 80,000,000 £1 ordinary shares to VION Food Group Limited.

## Notes *(continued)*

### 20 Reserves

| | Revaluation reserve | Profit and loss account |
|---|---|---|
| | **£000** | **£000** |
| At beginning of year | 18,478 | (12,228) |
| Loss for the year | - | (114,267) |
| Transfer | (975) | 975 |
| Impairment of tangible fixed assets | (17,503) | - |
| **At end of year** | **-** | **(125,520)** |

### 21 Reconciliation of movements in shareholders' funds

| | 2012 | 2011 |
|---|---|---|
| | **£000** | £000 |
| Loss for the year | **(114,267)** | (8,481) |
| Revaluation of tangible fixed assets | - | 10,666 |
| Impairment of tangible fixed assets | **(17,503)** | - |
| Issue of new share capital | **80,000** | - |
| Opening shareholders' funds | **15,430** | 13,245 |
| **Closing shareholders' funds** | **(36,340)** | 15,430 |

## Notes *(continued)*

### 22 Commitments

(a) Capital commitments at the year end for which no provision has been made are as follows:

| | 2012 £000 | 2011 £000 |
|---|---|---|
| Contracted but not provided for | **1,173** | 852 |

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

| | Land and buildings | | Other | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| *Operating leases which expire:* | **£000** | £000 | **£000** | £000 |
| Within one year | - | 184 | **51** | 475 |
| Between one and two years | - | 29 | **71** | 722 |
| Between two and five years | - | 9 | **179** | 140 |
| | - | 222 | **301** | 1,337 |

### 23 Contingent liabilities

***Cash Pool Facilities***
The company together with certain group companies utilises cash pool facilities provided by The Royal Bank of Scotland plc (RBS), BNP Paribas (BNP). At the year end the extent of the guarantee offered by the company on these facilities amounted to: £9,135,000 (RBS) and £112,000 (BNP) *(2011: £33,499,000 (RBS) and £1,426,000 (BNP))*.

***Group Banking Facility***
The company, along with other group companies, has granted an unlimited guarantee in respect of the group banking facilities amounting to €1,100 million *(2011: €1,100 million)*.

During the current year, the company has issued a guarantee of €150 million in relation to the group subordinated facility. This facility was created during the year as part of the refinancing of the group facilities.

## Notes *(continued)*

### 23 Contingent liabilities *(continued)*

***Group Funding Facility***
The company has granted security over certain trade debtors as part of a group wide securitisation facility that provides funding to the group. The funds advanced to the group in respect of the company's trade debtors amounts to £7,288,933 *(2011: £10,173,588).*

The directors consider it is unlikely that these guarantees or securities will be called upon in the foreseeable future.

### 24 Immediate parent company

The company's immediate parent company is VION Food Group Limited, a company registered in England and Wales.

### 25 Ultimate holding company

The directors consider VION Holding NV, registered in Holland, to be the ultimate holding company at the balance sheet date.

The largest group in which the results of the company are consolidated is that headed by VION Holding NV. No other group accounts include the results of the company. The consolidated accounts of this company are available to the public and may be obtained from the website at www.vionfood.com.

The results for the company are included in the consolidated 31 December 2012 results of VION Holding NV.

### 26 Post balance sheet events

Following the year end, on 30 December 2012 the company entered into an agreement to transfer its poultry business operations and assets to VION Agriculture Limited and its red meat business operations and assets to VION Food Wales & West England Limited, fellow group companies at the time of the transaction. Effective responsibility for ongoing operations and management of the poultry and red meat sites transferred to VION Agriculture Limited and VION Food Wales & West England Limited respectively on 30 December 2012. In addition the employees of these sites transferred under TUPE arrangements to VION Agriculture Limited and VION Food Wales & West England Limited.

On 15 February 2013 the company entered into an agreement to acquire the Welsh Country Foods site business operations and assets from VION Food Wales & West England Limited, a fellow group company at the time of the transaction. Effective responsibility for ongoing operations and management of this site transferred to the Company on 15 February 2013. In addition the employee's of this site transferred under TUPE arrangements to the Company.

Prior to the acquisition of Welsh Country Foods an announcement was made by VION Food Wales & West England Limited on 11 January 2013 that it could be forced to close its lamb processing business at Gaerwen. This was following a decision by its key customer to consolidate its fresh lamb business with an alternative supplier. A consultation process began immediately with the workforce and union representatives at Gaerwen. The decision to close the plant was taken by VION Food Scotland Limited on 11 April 2013 with immediate effect. All production had ceased by the end of April 2013. The sale of the Gaerwen site completed on 19 July 2013.

Following the decision made in October 2012, production at the Halls site ceased in February 2013. A phased decommissioning of the site, followed by site demolition, commenced shortly thereafter.