# Sun Valley Foods Limited

**Directors' report, strategic report and financial statements**

31 May 2018

Registered number 00678294

## Contents

# Directors' report

### Introduction

The directors present their annual report and the audited financial statements for the year ended 31 May 2018.

### Principal activities

The principal activity of the company during the year was food processing.

### Directors and directors' interests

The directors who served during the period and at the report date were:

| | |
|---|---|
| P M Allan | (appointed 26 January 2018) |
| K B Graham | (resigned 11 June 2018) |
| M F G Irwin | (appointed 26 January 2018 and resigned 7 December 2018) |
| D W D Marsh | (resigned 26 January 2018) |
| J W Reed | (resigned 26 January 2018) |
| C J Shooter | (appointed 11 June 2018) |
| M L Thompson | (resigned 11 June 2018) |
| F Urquidi Negron | (appointed 7 December 2018) |

### Disclosure of information to auditor

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

### Auditor

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

By order of the board

Grandstand Road
Hereford
HR4 9PB

**C J Shooter**
*Director*

25 February 2019

# Strategic report

**Business review and summary results**

The directors consider the key performance indicators to be turnover and result after taxation.

Summarised results are given below:

| | 2018 | 2017 |
|---|---|---|
| | £m | £m |
| Turnover | 381.7 | 464.0 |
| Profit after taxation | 4.2 | 1.6 |

The market conditions for 17/18 were highly competitive, with currency devaluation and operational cost increases causing pressure on gross margins. Demand for UK poultry continues to be strong and shows further signs of growth. There is continued focus placed on improving operational excellence across all parts of the value chain to improve and sustain earnings.

On 25 September 2017 Cargill and Faccenda Foods announced their intention to establish a joint venture to create a leading UK food company focused on chicken, turkey and duck. On 27 January 2018 Cargill's fresh chicken business in the UK, which includes all the trade and activities of Freemans of Newent Limited plus the fresh chicken business within Sun Valley Foods Limited, joined Faccenda's fresh chicken, turkey and duck business to form a new joint venture called Avara Foods Limited.

**Principal risks and uncertainties and key performance indicators**

The company's activities expose it to a number of financial risks that include commodity price risk, credit risk, interest rate risk and foreign currency risk. The directors, together with Cargill management, regularly review these risks against the established policies.

Commodity price risk - The purchase of feed ingredients requires that forward positions are taken to meet supply requirements. Positions are taken within duly authorised limits relative to each commodity. Senior management review these positions.

Credit risk - Credit checks are performed on potential customers using recognised industry experts before sales are transacted. The amount of exposure to any individual customer is controlled by means of credit limits, which are monitored regularly by management.

Interest rate risk - The company is exposed to movements in the level of interest rates. Debt is maintained through a centrally managed treasury function within the parent company.

Foreign exchange risk - Activities include the import and export of products which create exposures to movements in foreign exchange rates principally the Euro and US Dollar. This exposure is managed through matching foreign exchange contracts.

**Proposed dividend**

The directors do not recommend the payment of a dividend *(2017: £nil)*.

**Policy and practice on payment of creditors**

The company aims to pay all its creditors promptly. It is the company's policy to agree the terms of payment with its suppliers, ensure that suppliers are aware of the terms of payment, and to pay in accordance with contractual and other obligations.

By order of the board

**C J Shooter**
Director
25 February 2019

Velocity V1
Brooklands Drive
Weybridge, Surrey
KT13 0SL

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

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

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

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

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

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

KPMG

## Report of the independent auditor to the members of Sun Valley Foods Limited

### Opinion

We have audited the financial statements of Sun Valley Foods Limited ("the company") for the year ended 31 May 2018 which comprise the Profit and Loss Account, Statement of Total Comprehensive Income, Balance Sheet and Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 May 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### The impact of uncertainties due to Britain exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

### Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease their operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

### Strategic report and directors' report

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

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

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

## Independent auditor's report to the members of Sun Valley Foods Limited *(continued)*

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

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

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

We have nothing to report in these respects.

### Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### *Auditor's responsibilities*

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

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

Anthony Hambleton

**Anthony Hambleton** ***(Senior Statutory Auditor)***
**for and on behalf of KPMG LLP, Statutory Auditor**
**Chartered Accountants**

St Nicholas House
31 Park Row
Nottingham
NG1 6FQ

26th February 2019

## Profit and loss account

*for the year ended 31 May 2018*

| | Note | 2018 Continuing operations £000 | 2018 Discontinued operations £000 | 2018 Total £000 | 2017 Continuing operations £000 | 2017 Discontinued operations £000 | 2017 Total £000 |
|---|---|---|---|---|---|---|---|
| **Turnover** | 2 | 212,889 | 168,812 | 381,701 | 222,626 | 241,386 | 464,012 |
| Cost of sales | | (191,577) | (154,974) | (346,551) | (197,416) | (225,845) | (423,261) |
| **Gross profit** | | 21,312 | 13,838 | 35,150 | 25,210 | 15,541 | 40,751 |
| Distribution costs | | (7,548) | (4,864) | (12,412) | (10,668) | (6,870) | (17,538) |
| Administrative expenses | | (19,370) | (7,884) | (27,254) | (12,409) | (9,041) | (21,450) |
| **Operating (loss)/profit** | | (5,606) | 1,090 | (4,516) | 2,133 | (370) | 1,763 |
| Other interest receivable | 5 | | | 145 | | | - |
| Interest payable and similar charges | 6 | | | (712) | | | (584) |
| Profit on disposal of tangible fixed assets | | | | 5,659 | | | - |
| **Profit before taxation** | | | | 576 | | | 1,179 |
| Tax credit on profit | 8 | | | 3,631 | | | 405 |
| **Profit for the financial year** | | | | 4,207 | | | 1,584 |

As explained in the strategic report the fresh chicken business was sold to Freemans of Newent Limited during the year and has been classified as discontinued in the current and preceding year.

## Statement of other comprehensive income

*for the year ended 31 May 2018*

| | 2018 £000 | 2017 £000 |
|---|---|---|
| **Profit for the financial year** | 4,207 | 1,584 |
| **Other comprehensive income** | | |
| Effective portion in changes in fair value of cash flow hedges | 276 | (1,065) |
| Income tax on other comprehensive income | (47) | 224 |
| **Other comprehensive income for the year, net of income tax** | 229 | (841) |
| **Total comprehensive income** | 4,436 | 743 |

Notes on pages 9 to 20 form part of the financial statements.

## Balance sheet
***as at 31 May 2018***

| | Note | 2018 £000 | 2018 £000 | 2017 £000 | 2017 £000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible assets | *9* | | 24,580 | | 71,461 |
| **Current assets** | | | | | |
| Stocks | *10* | 29,958 | | 50,551 | |
| Debtors | *11* | 23,703 | | 55,944 | |
| Cash at bank and in hand | | 2 | | 16 | |
| | | 53,663 | | 106,511 | |
| **Creditors:** amounts falling due within one year | *12* | (66,532) | | (168,767) | |
| **Net current liabilities** | | | (12,869) | | (62,256) |
| **Total assets less current liabilities** | | | 11,711 | | 9,205 |
| **Provisions for liabilities and charges** | *13* | | (847) | | (2,861) |
| **Net assets** | | | 10,864 | | 6,344 |
| **Capital and reserves** | | | | | |
| Called up share capital | *14* | | 400 | | 400 |
| Share premium account | | | - | | 23,897 |
| Profit and loss account | | | 10,464 | | (17,953) |
| **Shareholder's funds** | | | 10,864 | | 6,344 |

Notes on pages 9 to 20 form part of the financial statements.

These financial statements were approved by the board of directors on 25 February 2019 and were signed on its behalf by:

**C J Shooter**
*Director*

Registered number 00678294

## Statement of changes in equity

*for the year ended 31 May 2018*

| | Share Capital £000 | Share Premium £000 | Profit and loss account £000 | Total Equity £000 |
|---|---|---|---|---|
| **At 1 June 2017** | 400 | 23,897 | (17,953) | 6,344 |
| *Total comprehensive income for the year* | | | | |
| Profit for the financial year | - | - | 4,207 | 4,207 |
| Other comprehensive income | - | - | 229 | 229 |
| **Total comprehensive income for the year** | - | - | 4,436 | 4,436 |
| *Transactions with owners, recorded directly in equity* | | | | |
| Equity settled share based payment transactions | - | - | 84 | 84 |
| Share premium cancelled | | (23,897) | 23,897 | |
| **Total contributions by and distributions to owners** | - | (23,897) | 23,981 | 84 |
| **At 31 May 2018** | 400 | - | 10,464 | 10,864 |

## Statement of changes in equity

*for the year ended 31 May 2017*

| | Share Capital £000 | Share Premium £000 | Profit and loss account £000 | Total Equity £000 |
|---|---|---|---|---|
| **At 1 June 2016** | 400 | 23,897 | (18,866) | 5,431 |
| *Total comprehensive income for the year* | | | | |
| Profit for the financial year | - | - | 1,584 | 1,584 |
| Other comprehensive income | - | - | (841) | (841) |
| **Total comprehensive income for the year** | - | - | 743 | 743 |
| *Transactions with owners, recorded directly in equity* | | | | |
| Equity settled share based payment transactions | - | - | 170 | 170 |
| **Total contributions by and distributions to owners** | - | - | 170 | 170 |
| **At 31 May 2017** | 400 | 23,897 | (17,953) | 6,344 |

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

***Statement of compliance***

Sun Valley Foods Limited is a limited liability company incorporated in England. The registered office is Velocity V1, Brooklands Drive, Weybridge, Surrey KT13 0SL.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (*"FRS 102"*) as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The company's ultimate parent undertaking, Cargill, Incorporated includes the company in its consolidated financial statements. The consolidated financial statements of Cargill, Incorporated are prepared in accordance with US GAAP and are available to the public and may be obtained from the address stated in note 17. In these financial statements, the company is considered to be a qualifying entity and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Cargill, Incorporated include the equivalent disclosures, the company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 *Share Based Payments*; and,
- The disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

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

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimated.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

The key area in the financial statements where these judgements and estimates have been made is within the valuation of stock and work in progress. The company uses judgements and estimates of operational performance to support calculations used. The value of stock and work in progress is detailed in note 10 of the financial statements.

Notes *(continued)*

1 **Accounting policies *(continued)***

***Basis of preparation***

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

***Going concern***

The directors believe that the company will be able to maintain current trading volume without significant increase in the cost of doing so in the coming years. In consequence, and in conjunction with the company's existing financial resources, the directors have reasonable expectations that the company has adequate resources to continue in operational existence for the foreseeable future and therefore continues to prepare annual financial statements on the going concern basis.

The directors have prepared cash flow forecasts which extend for a period of greater than 12 months from the date of these financial statements. They acknowledge that there are uncertainties around Britain's planned exit from the European Union on 29 March 2019 and are satisfied that there are sufficient resources available to the company to ensure that it continues as a going concern, taking into account reasonable downsides in assumptions.

***Tangible fixed assets and depreciation***

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

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

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

| | |
|---|---|
| Freehold and leasehold poultry houses | - 15 years |
| Freehold buildings | - 20-40 years |
| Leasehold improvements | - 8-15 years |
| Plant and machinery | - 3-20 years. |
| Fixtures and fittings | - 5-8 years |
| Motor vehicles | - 3-10 years |
| Software | - 8 years |

No depreciation is provided on freehold land, or construction in progress.

***Foreign currencies***

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. As these realised exchange differences arise from trading activities, they are included in other operating income/expenditure. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or 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.

***Government grants***

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

## Notes *(continued)*

### 1. Accounting policies *(continued)*

***Post-retirement benefits***

The company operates a pension scheme providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the company. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus or deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

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

The company offers at its discretion, an arrangement whereby employees who retire from company service under the Cargill Pension Plan and who were participating in the Cargill Group Medical Scheme on retirement date, may continue their membership of the Cargill Group Medical Scheme by paying the appropriate annual premium to the company which is at a subsidised rate. This arrangement is also made available to the spouse of an employee who dies in service and was participating in the Cargill Group Medical Scheme up to the date of the death.

***Research and development expenditure***

Expenditure on research and development is written off against profits in the year in which it is incurred.

Development expenditure is expensed to the profit and loss account in the year which it is incurred unless the directors are satisfied that the technical, commercial and financial viability of a project meets the criteria set out in FRS102 in which case the cost is capitalised and amortised over the period during which the company is expected to obtain economic benefit.

***Stocks***

Stocks are stated at the lower of cost and net realisable value. The cost of live poultry, processed poultry and hatching eggs includes direct costs, together with the appropriate proportion of overheads. Breeding stock is valued by accumulating costs up to the point of lay and then amortising these on a straight line basis over the laying cycle.

***Taxation***

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

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

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

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

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

## Notes *(continued)*

### 1 Accounting policies *(continued)*

***Turnover***

Turnover, all of which arose from the company's principal activity, represents amounts (excluding value added tax) derived from the provision of goods and services to customers during the year net of any rebates and discounts. Revenue is only recognised when the goods are delivered and when the risks and rewards of ownership passes to the buyer.

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

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

***Deferred compensation and share based payments***

The company participates in a deferred compensation scheme for the benefit of senior employees:

*Share option scheme*

The share option scheme allows employees to acquire shares of Cargill, Incorporated, the ultimate parent undertaking. Individuals receive options to buy shares in Cargill, Incorporated which are exercisable between three and ten years from the date of granting. The fair value of options granted and those not yet vested at the balance sheet date is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

*Cash option scheme*

Under the cash option scheme individuals receive units whose value is linked to the notional value of shares in Cargill, Incorporated, the ultimate parent undertaking. Individuals can exercise their options between three and five years after date of issue. Upon exercise the individual receives in cash the difference between the value of their units (linked to the notional value of Cargill, Incorporated) and the grant price. At five years after issue the options are automatically encashed. A provision is carried in the books of Cargill PLC for the difference between the notional market value of the units and the grant price. The company is recharged for the gain in the period.

## Notes *(continued)*

### 1 Accounting policies *(continued)*

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

Under FRS102.22 financial instruments issued by the company are treated as equity (i.e. forming part of shareholder's funds) only to the extent that they meet the following two conditions:

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

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

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

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy. The finance cost on the financial liability component is correspondingly higher over the life of the instrument.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholder's funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholder's funds.

***Dividends on shares presented within shareholder's funds***

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

## Notes *(continued)*

### 2 Turnover

An analysis of turnover by geographical destination is shown below:

| | 2018 | 2017 |
|---|---|---|
| | £000 | £000 |
| United Kingdom | 357,691 | 432,941 |
| Europe | 24,010 | 31,071 |
| | 381,701 | 464,012 |

All turnover and operating profit is derived from a single class of business located in the UK.

### 3 Staff numbers and costs

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

| | Number of employees | |
|---|---|---|
| | 2018 | 2017 |
| Management | 41 | 76 |
| Administration | 95 | 169 |
| Plant labour | 1,109 | 1,980 |
| | 1,245 | 2,225 |

The aggregate payroll costs of these persons were as follows:

| | 2018 | 2017 |
|---|---|---|
| | £000 | £000 |
| Wages and salaries | 43,568 | 67,214 |
| Share based payments | 386 | 463 |
| Social security costs | 3,820 | 5,009 |
| Pension costs *(see note 16)* | 8,628 | 4,826 |
| | 56,402 | 77,512 |

## Notes *(continued)*

### 4 Directors' remuneration

| | 2018 | 2017 |
|---|---|---|
| | £000 | £000 |
| Directors' emoluments | **605** | 540 |

The aggregate of emoluments and amounts receivable under the long term incentive scheme of the highest paid director was £275,589 *(2017: £254,348)*. The director exercised 15,695 options *(2017: nil)* and was granted 5,261 options *(2017: 18,311)* during the year.

| | Number | |
|---|---|---|
| | 2018 | 2017 |
| Retirement benefits are accruing to the following number of directors under defined benefit schemes | 6 | 5 |
| Number of directors exercising share options during the period | 2 | - |
| Number of directors for which shares are receivable under long term incentive schemes | 3 | 3 |

### 5 Other interest receivable

| | 2018 | 2017 |
|---|---|---|
| | £000 | £000 |
| Payable from group companies | 140 | - |
| Other interest | 5 | - |
| | **145** | - |

### 6 Interest payable and similar charges

| | 2018 | 2017 |
|---|---|---|
| | £000 | £000 |
| Payable to group undertakings | **712** | 584 |

### 7 Expenses and auditor's remuneration

| | 2018 | 2017 |
|---|---|---|
| | £000 | £000 |
| *Auditor's remuneration:* | | |
| - audit of these financial statements | **116** | 114 |

# Notes *(continued)*

## 8 Taxation

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

| | 2018 £000 | 2017 £000 |
|---|---|---|
| *Current tax* | | |
| UK corporation tax at 19.00% *(2017: 19.83%)* | (1,431) | (125) |
| Adjustment in repect of prior year | (139) | (1,894) |
| Total current tax charge credit | (1,570) | (2,019) |
| *Deferred tax* | | |
| Deferred taxation arising from the origination and reversal of timing differences | (56) | 747 |
| Prior year (over) / under provision | (2,247) | 1,277 |
| Impact of change in tax rate | 242 | (410) |
| Tax credit | (3,631) | (405) |

**Reconciliation of effective tax rate**

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Profit for the year | 4,207 | 1,584 |
| Total tax credit | (3,631) | (405) |
| | 576 | 1,179 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% *(2017: 19.83%)* | 109 | 234 |
| Effects of: | | |
| Income not taxed | (1,978) | - |
| Non deductible expenses | 382 | 388 |
| Impact of change in tax rate | 242 | (410) |
| Adjustment in respect of prior year | (2,386) | (617) |
| Total tax credit for the year | (3,631) | (405) |

**Factors that may affect future current and total tax charges**

Recent budgets have announced changes to the main rate of UK corporation tax. The current rate of 19.00% was enacted on 26 October 2015 and applied from 1 April 2017.

The deferred tax balance at 31 May 2018 has been calculated based on the rate of 17%, which is effective from 1 April 2020 and was substantively enacted at the balance sheet date.

This reduces the company's future current tax rate accordingly.

## Notes *(continued)*

### 9 Tangible fixed assets

| | Freehold land and buildings | Plant, machinery, fixtures and vehicles | Construction in progress | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| ***Cost*** | | | | |
| At 1 June 2017 | 44,268 | 98,431 | 21,047 | 163,746 |
| Reclassification | - | 19,155 | (19,155) | - |
| Additions | - | 233 | 24,877 | 25,110 |
| Intercompany transfer | (36,768) | (79,743) | (13,545) | (130,056) |
| Disposals | - | (25,572) | - | (25,572) |
| **At 31 May 2018** | **7,500** | **12,504** | **13,224** | **33,228** |
| ***Accumulated depreciation*** | | | | |
| At 1 June 2017 | 24,412 | 67,873 | - | 92,285 |
| Depreciation charge in the year | 843 | 4,738 | - | 5,581 |
| Intercompany transfer | (18,387) | (46,691) | - | (65,078) |
| On disposals | - | (24,140) | - | (24,140) |
| **At 31 May 2018** | **6,868** | **1,780** | **-** | **8,648** |
| ***Net book value*** | | | | |
| **At 31 May 2018** | **632** | **10,724** | **13,224** | **24,580** |
| At 1 June 2017 | 19,856 | 30,558 | 21,047 | 71,461 |

Included in freehold land and buildings is an amount of £1,350,149 (*2017: £2,908,873*) in respect of non-depreciable land.

Disposals made by intercompany transfer were to Freemans of Newent Limited ("Freemans"). Freemans subsequently de-merged from the Cargill plc group and became a wholly owned subsidiary of Avara Foods Limited.

# Notes *(continued)*

## 10 Stocks

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Raw materials and consumables | 2,160 | 19,816 |
| Work in progress (including live birds on growing farms) | 3,686 | 5,668 |
| Finished goods and goods for resale | 24,112 | 25,067 |
| | 29,958 | 50,551 |

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £239,599,000 *(2017: £208,214,000)*.

## 11 Debtors

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Trade debtors | 15,131 | 37,240 |
| Amounts owed by group undertakings - trade debtors | 3,473 | 11,016 |
| Amounts owed by participating interests - trade debtors | 256 | - |
| Other debtors | 1,065 | 2,430 |
| Prepayments and accrued income | 1,864 | 4,456 |
| Corporation tax receivable | 1,914 | 700 |
| Loan notes | - | 102 |
| | 23,703 | 55,944 |

## 12 Creditors: amounts falling due within one year

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Trade creditors | 7,402 | 27,353 |
| Amounts owed to group undertakings | 53,502 | 127,602 |
| Amounts owed to participating interests - trade creditors | 221 | - |
| Other taxes and social security | 246 | 1,347 |
| Other creditors | - | 1,192 |
| Accruals and deferred income | 5,161 | 11,273 |
| | 66,532 | 168,767 |
| *Amounts owed to group undertakings comprise:* | | |
| Trade creditors | 9,207 | 12,783 |
| Short term loans | 44,295 | 114,819 |
| | 53,502 | 127,602 |

## Notes *(continued)*

### 13 Deferred tax assets and liabilities

| | Assets | | Liabilites | | Total | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Accelerated capital allowances | - | - | (311) | (2,281) | (311) | (2,281) |
| Rolled over gains | - | - | (414) | (508) | (414) | (508) |
| Other timing difference | - | - | (122) | (72) | (122) | (72) |
| Total tax liability | - | - | (847) | (2,861) | (847) | (2,861) |
| Net of tax liabilites | - | - | - | - | - | - |
| Net tax liability | - | - | (847) | (2,861) | (847) | (2,861) |

### 14 Called up share capital

| | 2018 | 2017 |
|---|---|---|
| | £ | £ |
| *Alloted, called up and fully paid* | | |
| 400,000 ordinary share of £1 each | 400,000 | 400,000 |

### 15 Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

| | 2018 | 2017 |
|---|---|---|
| | £000 | £000 |
| *Property, plant and machinery including vehicles* | | |
| Within one year | 15 | 1,438 |
| In the second to fifth years inclusive | 228 | 3,251 |
| Over five years | - | 116 |
| | 243 | 4,805 |

The expense recognised in the year was £2,385,000 *(2017: £3,098,000)*.

## Notes *(continued)*

### 16 Pensions

The company operates a funded defined benefit pension scheme in the UK for the benefit of employees within the UK called the Cargill Pension Plan. The assets of the plans are held in separate trustee administered funds.

*Cargill Pension Plan:*

The company participates in a group wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. The scheme was closed to new entrants on 5 April 2006. The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, under FRS 102 accounts for the scheme as if it was a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period. The contribution for the year ended 31 May 2018 was £7,812,000 *(2017: £3,823,000)*.

A full actuarial valuation has been carried out at 5 April 2016 and has been updated to 31 May 2018 by a qualified independent actuary to take account of the requirements of FRS 102.28 in order to assess the assets and liabilities of the scheme at the report date. As at 31 May 2018 the market value of the assets of the scheme was £982.3 million *(2017: £930.0 million)*. Based on the latest actuarial indications, there exists a deficit on the scheme of £93.6 million *(2017: £323.6 million)*. The actuarial value of the assets of the scheme plan at that date represented 91 percent *(2017: 74 percent)* of the value of potential benefits accrued to its members. The current rate of employer contributions of 21.2% will be reviewed this year subject to the publication of the pending full actuarial value carried out at 5 April 2016.

*Defined contribution scheme*

The company also operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period. The contribution for the year ended 31 May 2018 was £816,000 *(2017: £1,003,000)*.

### 17 Ultimate holding company and parent undertaking

The company is a wholly owned subsidiary of Cargill PLC, a company incorporated in Great Britain and registered in England and Wales. Cargill, Incorporated is the ultimate parent undertaking of Sun Valley Foods Limited, and is regarded by the directors as being the company's ultimate controlling party.

The parent undertaking of the smallest and largest group into which the accounts of the company are consolidated is Cargill, Incorporated, a company incorporated in the USA. The consolidated financial statements of this group are lodged at Companies House, Crown Way, Cardiff, CF4 3UZ.