

**THIS DOCUMENT AND THE ACCOMPANYING DOCUMENTS ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION. This document contains the Resolutions to be voted on at the General Meeting of Hilton Food Group Plc to be held on 6 November 2017. If you are in any doubt about the contents of this Circular or the action you should take, you are recommended to seek your own advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial advisor who is authorised for the purpose of the Financial Services and Markets Act 2000 (as amended) (“FSMA”).**

If you sell or otherwise transfer, or if you have sold or otherwise transferred all of your Ordinary Shares, please immediately forward this Circular and the accompanying documents to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. However, such documents should not be forwarded for transmission in or into any jurisdiction in which such act would constitute a violation of the relevant laws in such jurisdiction. If you have sold or otherwise transferred only part of your holding of Ordinary Shares you should retain these documents but immediately contact the stockbroker, bank or other agent through whom the sale was effected.

**This Circular should be read as a whole. Your attention is drawn to the “Letter from the Chairman of the Company” set out in Part I of this Circular which contains a recommendation from the Board that Shareholders vote in favour of the Resolutions to be proposed at the General Meeting referred to below. For a discussion of certain risks and other factors that should be considered in connection with the Acquisition, see the “Risk Factors” set out in Part II of this Circular.**

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## **HILTON FOOD GROUP PLC**

(a company incorporated in England and Wales with registered no. **06165540**)

### **Proposed Acquisition of Icelandic Group UK Limited**

**and**

### **Notice of General Meeting**

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Copies of this Circular are available on the “Investor Relations” section of the Company’s website at [www.hiltonfoodgroupplc.com](http://www.hiltonfoodgroupplc.com) and are also available for collection, free of charge, during normal business hours on any Business Day up until close of the General Meeting from the registered office of the Company. Unless you have sold or transferred all your Ordinary Shares you are recommended to retain this Circular for reference.

Notice of the General Meeting of the Company convened for 10 a.m. on 6 November 2017 at 2-8 The Interchange, Latham Road, Huntingdon, Cambridgeshire PE29 6YE is set out at the end of this Circular. To be valid, the accompanying Form of Proxy for use at the General Meeting must be completed by Shareholders and returned to the Registrars by hand (during normal business hours only) or by post at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA by not later than 10 a.m. on 2 November 2017 (or in the case of an adjournment, not later than 48 hours (excluding non-business days) before the time fixed for the holding of the adjourned meeting).

As an alternative to completing the enclosed Form of Proxy, Shareholders can appoint a proxy electronically at [www.sharevote.co.uk](http://www.sharevote.co.uk). For an electronic proxy appointment to be valid, the appointment must be received by not later than 10 a.m. on 2 November 2017 (or in the case of an adjournment, not later than 48 hours (excluding non-business days) before the time fixed for the holding of the adjourned meeting).

Completion and return of a Form of Proxy (or the electronic appointment of a proxy) will not preclude Shareholders from attending and voting at the General Meeting should they so wish.

This Circular is not a prospectus, but a shareholder circular relating to the Acquisition and the Resolutions, and it is not intended to and does not constitute or form part of any offer or invitation to purchase, acquire, subscribe for, sell, dispose of or issue, or any solicitation of an offer to sell, dispose of, issue, purchase, acquire or subscribe for, any security. This Circular has been prepared in accordance with the Listing Rules and approved by the FCA.

The information provided in this Circular is provided solely in compliance with the Listing Rules for the purpose of enabling Shareholders to consider the Resolutions.

Numis Securities Limited (“Numis”), which is authorised and regulated in the United Kingdom by the Financial Conduct Authority, has been appointed as sole sponsor, financial adviser and joint bookrunner in connection with the Acquisition, the Placing and Admission and is acting for Hilton

Food Group Plc and for no one else in connection with this Circular, the Acquisition, the Placing and Admission and, accordingly, will not be responsible to anyone other than Hilton Food Group Plc for providing the protections afforded to clients of Numis or for providing advice in relation to the Acquisition, the contents of this Circular, the Placing and Admission or any transaction, arrangement or other matters referred to in this Circular. Apart from the responsibilities and liabilities, if any, which may be imposed on Numis under FSMA or the regulatory regime established thereunder, Numis accepts no responsibility whatsoever and makes no representation or warranty, express or implied, concerning the contents of this Circular including its accuracy, completeness and verification or concerning any other statement made or purported to be made by it or on behalf of it, in connection with the Company, the Acquisition, the Placing and Admission or any transaction, arrangement or other matter referred to in this Circular. Numis accordingly disclaims to the fullest extent permitted by law all and any responsibility and liability whether arising in tort, contract or otherwise (save as referred to herein) which it might otherwise have in respect of this document or any such statement.

Panmure Gordon (UK) Limited ("**Panmure Gordon**"), which is authorised and regulated in the United Kingdom by the Financial Conduct Authority, has been appointed as joint bookrunner in connection with the Placing and Admission and is acting for Hilton Food Group Plc and for no one else in connection with this Circular and the Acquisition and, accordingly, will not be responsible to anyone other than Hilton Food Group Plc for providing the protections afforded to clients of Panmure Gordon or for providing advice in relation to the contents of this Circular, the Placing or Admission or any transaction, arrangement or other matters referred to in this Circular. Apart from the responsibilities and liabilities, if any, which may be imposed on Panmure Gordon under FSMA or the regulatory regime established thereunder, Panmure Gordon accepts no responsibility whatsoever and makes no representation or warranty, express or implied, concerning the contents of this Circular including its accuracy, completeness and verification or concerning any other statement made or purported to be made by it or on behalf of it, in connection with the Company and the Placing and Admission. Panmure Gordon accordingly disclaims to the fullest extent permitted by law all and any responsibility and liability whether arising in tort, contract or otherwise (save as referred to herein) which it might otherwise have in respect of this document or any such statement.

#### ***Notice to all Shareholders***

Any reproduction or distribution of this Circular, in whole or in part, and any disclosure of its contents or use of any information contained in this Circular for any purpose other than considering the Resolutions is prohibited.

No person has been authorised to give any information or make any representations other than those contained in this Circular or incorporated by reference into it and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Company or Numis. None of the above take any responsibility or liability for, and can provide no assurance as to the reliability of, other information that you may be given. Subject to the Listing Rules and the Disclosure Guidance and Transparency Rules, the delivery of this Circular shall not, under any circumstances, create any implication that there has been no change in the affairs of the Company or the Target since the date of this Circular or that the information in this Circular is correct as at any time subsequent to the date of this Circular.

The contents of this Circular and the information incorporated by reference into it should not be construed as legal, business or tax advice. Each Shareholder should consult his, her or its own legal adviser, financial adviser or tax adviser for legal, financial or tax advice respectively.

#### ***Notice to overseas Shareholders***

This Circular is not an offer of securities for sale in the United States and there will be no public offer of securities in the United States. The securities discussed in this Circular have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") or under any securities laws of any state or other jurisdiction of the United States and may not be offered or sold, directly or indirectly, within the United States, except pursuant to an applicable exemption from, or a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

**The securities discussed in this Circular have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of these securities or the accuracy or adequacy of this Circular. Any representation to the contrary is a criminal offence in the United States.**

Distribution of this Circular by any recipient may be restricted or prohibited by US law. Recipients are required to inform themselves of, and comply with, all such restrictions or prohibitions.

This Circular is dated 18 October 2017.

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## IMPORTANT INFORMATION

### 1. Forward looking statements

This Circular contains “forward looking statements” concerning the business of the Company and, upon Completion, the Enlarged Group. Generally, the words “anticipate”, “believe”, “estimate”, “expect”, “forecast”, “intend”, “may”, “plan”, “project”, “should” and similar expressions identify forward-looking statements. Such statements reflect the Directors’ current views with respect to future events and are subject to risks and uncertainties that could cause the actual results to differ materially from those expressed in the forward-looking statements. Many of these risks and uncertainties relate to factors that are beyond the Company’s or the Enlarged Group’s ability to control or estimate precisely, such as changes in general economic and business conditions, changes in interest rates, introduction of competing products or services, lack of acceptance of new products or services, changes in business strategy and the behaviour of other market participants and other factors discussed in Part II of this Circular, and therefore undue reliance should not be placed on such statements.

The forward looking statements speak only as at the date of this Circular. Except as required by the Financial Conduct Authority, the London Stock Exchange, the Listing Rules, the Disclosure Transparency and Guidance Rules or applicable law, the Company does not have any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, further events or otherwise. Except as required by the Listing Rules, the Disclosure and Transparency Rules or applicable law, the Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Company’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Circular might not occur.

For the avoidance of doubt, nothing in this paragraph 1 (Forward looking statements) is intended to qualify the working capital statements set out in paragraph 7 (Working capital) in Part VI (Additional Information) of this Circular.

### 2. Currency and exchange rate presentation

Unless otherwise indicated, references to pounds sterling, sterling, pounds, pence, p or £ are to the lawful currency of the United Kingdom, references to Euros or € are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

Unless otherwise specified, the financial information contained in this Circular has been expressed in sterling.

### 3. Market, economic and industry data

This Circular contains information regarding the Hilton Group, the Target and the Enlarged Group’s business and the market in which they operate and compete, which the Company has obtained from various third party sources. Where information has been sourced from a third party it has been accurately reproduced and, so far as the Company is aware and is able to ascertain from the information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Such information has not been audited or independently verified. Where third party information has been used in this Circular, the source of such information has been identified.

### 4. Rounding

Certain data in this Circular, including financial, statistical and operating information, has been rounded. As a result of rounding, the totals of data presented in this Circular may vary slightly from the actual arithmetic totals of such data. Percentages have also been rounded and accordingly may not add to 100 per cent.

## **5. Presentation of financial information**

Unless otherwise stated:

- a) financial information relating to the Hilton Group has been extracted without material adjustment from the audited consolidated financial statements of the Company or from the unaudited consolidated interim financial statements of the Company, incorporated by reference as set out in Paragraph 14 of in Part VI of this document;
- b) financial information relating to the Target Group has been extracted without material adjustment for the Historical Financial Information set out in Part III (*Historical Financial Information relating to the Target Group*) of this document;
- c) all prices quoted for Ordinary Shares are closing prices in Pounds Sterling as provided by the London Stock Exchange.

Unless otherwise indicated, financial information in this Circular relating to the Hilton Group and the Target Group has been prepared in accordance with IFRS and in accordance with the accounting policies adopted by the Hilton Group in preparing its financial statements for the year ended 31 December 2016.

### **Non-IFRS financial measures**

The document includes non-IFRS measures and ratios, including EBITDA, which are not measures of financial performance under IFRS. The Company defines EBITDA as operating profit before depreciation and amortisation. EBITDA-based measures and the related ratios are used by management as indicators of our operating performance. The Company is not presenting EBITDA-based measures as measures of the Hilton Group's or the Target Group's results of operations. EBITDA-based measures have important limitations as an analytical tool, and should not be considered in isolation or as substitutes for analysis of the Hilton Group's or the Target Group's results of operations.

EBITDA and other non-IFRS measures should not be considered in isolation or as an alternative to profit from operations, cash flow from operating activities or other financial measures of the Hilton Group's results of operations or liquidity derived in accordance with IFRS.

## **6. No profit forecast**

No statement in this Circular is intended as a profit forecast or profit estimate and no statement in this Circular should be interpreted to mean that earnings per Ordinary Share for the current or future financial years would necessarily match or exceed the historical published earnings per Ordinary Share.

## **7. No incorporation of website information**

Without prejudice to the documents incorporated by reference into this Circular, which will be made available on the Company's website ([www.hiltonfoodgroupplc.com](http://www.hiltonfoodgroupplc.com)), neither the contents of the Company's website nor of any website accessible via hyperlinks from the Company's website are incorporated into, or form part of, this Circular and Shareholders and prospective investors should not rely on them.

## **8. Defined terms**

Defined terms, including all capitalised terms, are defined and explained on pages 9 to 10.

## **9. Times**

All references to time in this Circular are, unless otherwise stated, references to time in London, United Kingdom.

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Each of the times and dates in the table below is indicative only and may be subject to change.

Announcement of the Acquisition	18 October 2017
Publication and posting of this Circular and the Forms of Proxy	18 October 2017
Latest time and date for receipt of Forms of Proxy (or electronic / CREST proxy appointment)	10 a.m. on 2 November 2017
General Meeting	10 a.m. on 6 November 2017
Expected date of Completion	7 November 2017

## **DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS**

<b>Directors</b>	Colin Deverell Smith OBE ( <i>Non-Executive Chairman</i> ) Robert Andrew Watson OBE ( <i>Chief Executive</i> ) Nigel Richard Majewski ( <i>Chief Financial Officer</i> ) Philip John Heffer ( <i>Chief Operating Officer</i> ) John Graham Worby ( <i>Non-Executive Director</i> ) Christine Cross ( <i>Non-Executive Director</i> )
<b>Company Secretary</b>	Neil Michael George
<b>Registered Office</b>	2-8 The Interchange Latham Road Huntingdon Cambridgeshire PE29 6YE
<b>Sponsor, Financial Adviser and Joint Bookrunner</b>	Numis Securities Limited 10 Paternoster Square London EC4M 7LT
<b>Joint Bookrunner</b>	Panmure Gordon (UK) Limited One New Change London EC4M 9AF
<b>Reporting Accountants</b>	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH
<b>Legal advisers to the Company</b>	Taylor Wessing LLP 5 New Street Square London EC4A 3TW
<b>Registrar</b>	Equiniti Limited Aspect House Spencer Road Lancing West Sussex BN99 6DA

## DEFINITIONS

The following definitions apply throughout this document and the accompanying Form of Proxy unless the context requires otherwise:

<b>“Acquisition”</b>	the proposed acquisition of the Target pursuant to the terms of the Sale and Purchase Agreement
<b>“Admission”</b>	the admission of the Placing Shares to trading on the Main Market
<b>“Buyer”</b>	Hilton Foods Limited, a wholly owned subsidiary of the Company
<b>“Circular”</b>	this document detailing the terms of the Acquisition
<b>“Class 1 Transaction”</b>	a major transaction, the size of which results in a 25 per cent. threshold being reached under any of the class tests set out in the Listing Rules
<b>“Companies Act”</b>	the Companies Act 2006 (as amended) of England and Wales
<b>“Completion”</b>	completion of the Acquisition pursuant to the Sale and Purchase Agreement
<b>“Consideration”</b>	the consideration of £80.8 million
<b>“Daily Official List”</b>	the Daily Official List of the London Stock Exchange
<b>“Directors” or “Board”</b>	the directors of the Company listed in paragraph 2 of Part VI of this Circular
<b>“Disclosure Guidance and Transparency Rules”</b>	the Disclosure Guidance and Transparency Rules made by the UKLA under Part VI of FSMA
<b>“Enlarged Group”</b>	the Hilton Group as enlarged following the acquisition of the Target Group
<b>“Form of Proxy”</b>	the form of proxy for use by Shareholders at the General Meeting which accompanies this document
<b>“FCA”</b>	the UK Financial Conduct Authority
<b>“FSMA”</b>	the Financial Services and Markets Act 2000
<b>“General Meeting”</b>	the general meeting of the Company (or any adjournment of it) convened for 10 a.m. on 6 November 2017 for Shareholders to approve the Resolutions, notice of which is set out at the end of this Circular
<b>“Hilton” or the “Company”</b>	Hilton Food Group Plc, a public limited company, incorporated and registered in England (registered number 06165540)
<b>“Hilton Group”</b>	Hilton and its subsidiaries and subsidiary undertakings from time to time and, where the context requires, each one of them
<b>“IFRS”</b>	the International Financial Reporting Standards published by the International Accounting Standards Board and adopted by the European Commission pursuant to the EC Regulation on the application of international accounting standards (EC/1606/2002)
<b>“LIBOR”</b>	the London interbank offered rate
<b>“Listing Rules”</b>	the listing rules made by the UKLA under Part VI of FSMA
<b>“London Stock Exchange”</b>	London Stock Exchange Group plc
<b>“Main Market”</b>	the Main Market of the London Stock Exchange
<b>“Numis”</b>	Numis Securities Limited
<b>“Official List”</b>	the list maintained by the Financial Conduct Authority in accordance with section 74 (1) of FSMA
<b>“Ordinary Shares”</b>	ordinary shares of 10 pence each in the capital of the Company
<b>“Panmure Gordon”</b>	Panmure Gordon (UK) Limited

<b>“Placee”</b>	any person that has conditionally agreed to subscribe for Placing Shares
<b>“Placing”</b>	the underwritten placing of the Placing Shares on the terms and subject to the conditions contained in the Placing Agreement
<b>“Placing Announcement”</b>	means the press announcement relating to the Acquisition and the Placing released earlier today
<b>“Placing Agreement”</b>	the conditional placing agreement entered into between the (1) Company (2) Numis and (3) Panmure Gordon on 18 October 2017 relating to the Placing
<b>“Placing Price”</b>	760 pence per Placing Share
<b>“Placing Shares”</b>	the new Ordinary Shares to be issued to Placees pursuant to the Placing
<b>“Registrar”</b>	Equiniti Limited
<b>“Resolutions”</b>	the resolutions in the notice of the General Meeting set out at the end of this Circular
<b>“Sale and Purchase Agreement”</b>	the conditional agreement between (1) the Buyer (2) the Company as the Buyer’s guarantor (3) the Seller and (4) the Seller Guarantor dated 18 October 2017 in respect of the Acquisition, a summary of which is set out in Part V of this Circular
<b>“Seachill” or “Target”</b>	Icelandic Group UK Limited, a company incorporated in England with company number 00481280
<b>“Seller”</b>	Gadus B.V., a company incorporated and registered in the Netherlands with company number RSIN 00863865
<b>“Seller Guarantor”</b>	Framtakssjóður Íslands SLHF., established and registered in Iceland with registered number 651109-0510
<b>“Shareholders”</b>	a holder of Ordinary Shares from time to time
<b>“Target Group”</b>	the Target and its subsidiaries and subsidiary undertakings from time to time and, where the context requires, each one of them
<b>“UK” or “United Kingdom”</b>	the United Kingdom of Great Britain and Northern Ireland
<b>“UKLA”</b>	the Financial Conduct Authority exercising its functions under Part VI of FSMA

## PART I

### LETTER FROM THE CHAIRMAN OF THE COMPANY

HILTON FOOD GROUP PLC

(Incorporated and registered in England & Wales with registered number 06165540)

2-8 The Interchange  
Latham Road  
Huntingdon  
Cambridgeshire  
PE29 6YE

#### *Directors*

Colin Smith OBE (*Non-Executive Chairman*)  
Robert Watson OBE (*Chief Executive*)  
Nigel Majewski (*Chief Financial Officer*)  
Philip Heffer (*Chief Operating Officer*)  
John Worby (*Non-Executive Director*)  
Christine Cross (*Non-Executive Director*)

18 October 2017

*Dear Shareholders,*

#### **Proposed Acquisition and Notice of General Meeting**

##### **1. Introduction**

Earlier today, the Board announced that its wholly owned subsidiary, Hilton Foods Limited (the “**Buyer**”) had entered into a conditional agreement to acquire the entire issued share capital of Seachill with the Company entering into the agreement as guarantor. The Consideration for the Acquisition is £80.8 million payable in cash on Completion. The principal terms of the Sale and Purchase Agreement are set out below and in Part V of this Circular.

In accordance with the Listing Rules, the Target Group is of such a size relative to the Company that the Acquisition constitutes a Class 1 Transaction and is, therefore, conditional upon the approval of Shareholders at a General Meeting. The General Meeting has been convened for 10 a.m. on 6 November 2017 at 2-8 The Interchange, Latham Road, Huntingdon, Cambridgeshire PE29 6YE and the notice of the General Meeting containing the Resolutions is set out at the end of this Circular.

The purpose of this Circular is to set out the proposed terms of the Acquisition and the Placing, including the background to and reasons for the Acquisition, to explain why the Board considers the Acquisition to be in the best interests of the Company’s shareholders as a whole and to recommend that Shareholders vote in favour of the Resolutions to be proposed at the General Meeting.

##### **2. Background to and reasons for the Acquisition**

Hilton is a leading specialist international meat packing business, supplying major international retailers from its state-of-the-art facilities. Hilton’s business was established in 1994 to set up and operate a beef and lamb central meat packing facility in Huntingdon, England. Hilton has grown rapidly and now has six factories across Europe plus a joint venture which allows our products to be sold in supermarkets across 14 European countries. Hilton also formed a joint venture with Woolworths, Australia in 2013 which operates two factories and we recently announced that we will be constructing a new meat processing facility in Queensland to be operated as Hilton Foods Australia, a subsidiary 100% owned by Hilton.

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

1. Building volumes with and extending product ranges for existing customers;
2. Partnering with existing customers in new territories;
3. Gaining new customers in new territories; and

#### 4. Maintaining an uncompromising focus on unit costs, quality and product development.

Throughout our development Hilton has worked closely and collaboratively with our customers to deliver this strategy. We have grown our capacity and capabilities through disciplined capital investment and continued innovation, to meet our customers' commercial needs and expanding our range of services to enhance their own customer offers. Our successful expansion into international markets, including recent investments in Australia and Portugal, are good examples of this successful strategy in execution. As a result of this strong and growing track record as a trusted and added value partner to our customers, we are working with an increasing number of our existing customers on plans to expand Hilton's products, capabilities and capacity.

To date, the Group has been focused on the processing of meat, principally beef and lamb as well as pork outside the UK, and this will remain at the core of the business in the future. However our customers sell a broader range of protein products than just meat. Working with our customers, it is clear that they have an interest in the prospect of Hilton processing and supplying other proteins beyond red meat, based on our expertise in sourcing, assembling, packing and distribution. Your Board sees this as an attractive and sustainable area to develop and grow Hilton's business, and our initial discussions with key customers supports this view.

As a result, your Board believes that the acquisition of Seachill, the number 2 player in the UK fish market, presents an attractive and relatively low risk entry into the processing and supply of fish in the UK. This is a new category for the Group and it is an attractive growth opportunity for the Group, for the following reasons:

- fish is a growing consumer category where we do not currently have a presence;
- our existing customers have shown interest in opportunities in adjacent categories, such as fish, both in the UK and internationally;
- consumer tastes and preferences for healthier lifestyles and menus underpin the attractive market dynamics for fish as a category; and
- the opportunity created by the extension of our proven customer focused strategy to this new category.

The chilled seafood market within Great Britain has displayed resilient growth evidenced by a 20 year track record of increasing market value. Customers see it as a key category with 80% of shoppers buying chilled seafood and on average customers making 19 purchases and spending a total £82 per annum.

Founded in 1998, Seachill has grown to be one of the largest chilled fish processors in the UK, with well-invested facilities and a well-established supply chain based in Grimsby, Lincolnshire. Under Simon Smith's leadership, who will lead the business as a division within Hilton going forward, the business has performed well over a number of years, operating from three sites in the area and supplying a number of leading food retail customers in the UK. Seachill focuses on the three largest fish species in the UK and has successfully innovated and developed new products including The Saucy Fish Co. brand, which is the largest chilled wet fish brand in the UK.

Seachill's largest customer, Tesco, accounts for approximately 80% of its net sales and there is consequently significant reliance on one customer relationship. As Tesco is also one of the Company's principal customers, it is expected that the Acquisition will strengthen the Company's existing relationship with Tesco through the supply of a new product category.

Following completion of the proposed Acquisition there are a number of opportunities for the Enlarged Group to create value moving forwards. These include:

- investing in the Seachill business to increase capacity and using Hilton's experience in robotics and automated processes to develop state-of-the-art facilities in the assembling, packing and distributing of fish products, which will deliver even higher quality and better value to the consumer;
- expanding into overseas territories using the Seachill management team's expertise in the fish category, following the successful model of our recent overseas expansion alongside key customers in Portugal and Australia;
- developing innovative new products in the fish category in collaboration with our customers, broadening the range of products that the Enlarged Group can offer new and existing customers; and

- expanding the proprietary “The Saucy Fish Co.” brand into other categories both in the UK and overseas.

### **3. Current trading of the Company**

On 12 September 2017, Hilton published its interim results for the 28 weeks to 16 July 2017, in which Hilton stated:

“Hilton delivered strong volume and profit growth during the period. Our strategic progress continued with entry into Portugal and expansion recently announced in Central Europe where beef deboning has commenced and a fresh food factory will be developed. The initial work on our new factory in Queensland, Australia continues with the planning approvals process well advanced. We remain committed to growing our business through innovation and product development as well as exploring a range of new expansion opportunities to further our geographic reach.

Hilton’s overall underlying trading performance remained strong, despite competitive retail grocery markets and uncertain macroeconomic conditions. Volumes increased by 8.7% reflecting growth in Ireland, Sweden and Australia and also the start of the Portuguese joint venture. Turnover increased by 9.3% to £690.7m (2016: £631.9m) and by 3.2% on a constant currency basis.

Operating profit for the first 28 weeks of 2017 was 9.0% higher at £18.8m (2016: £17.3m) and 1.4% higher on a constant currency basis including new product start-up and support costs in Europe and initial Queensland costs as well as weaker trading across Central Europe. The operating profit margin at 2.7% was unchanged compared to last year.”

The Hilton 2017 Unaudited Interim Financial Statements outlined Hilton’s continued operating momentum and, since that date, Hilton’s trading performance continues to be in line with the Hilton Board’s expectations

The Company announced on 16 October 2017 that it will proceed with plans to expand its packing capability to New Zealand. Hilton will construct a new meat processing facility in Auckland and will supply Progressive Enterprises Ltd (which trades as Countdown Supermarkets). The development will take place as an extension of the existing site and will be financed by a newly formed subsidiary, Hilton Foods New Zealand. The Company is targeting production at the facility for 2020. Progressive Enterprises LTD is part of the Woolworths group and this development further strengthens Hilton’s existing relationship with Woolworths Ltd.

### **4. Current trading of the Target Group**

In the current year, the Target Group has performed well and delivered revenue growth through new business wins, launching a number of new products and grown its core business.

At the same time the business has made a number of operational efficiencies. A supply contract with Seachill’s second largest customer, which contributed £49.8m of revenue in the 12 months to 31 December 2016, was exited as both parties could not agree on pricing.

Revenue growth this year up to 27 August 2017 on a like-for-like basis versus the same period in 2016 was 21.5% when adjusted for the exit from the supply contract detailed above.

### **5. Principal terms of the Acquisition**

The Sale and Purchase Agreement entered into by the Buyer, the Company, the Seller and the Seller Guarantor on 18 October 2017 sets out the terms of the Acquisition pursuant to which the Company has agreed to acquire Seachill from the Seller for the consideration of £80.8 million payable in cash on Completion.

The Sale and Purchase Agreement is conditional upon the approval of the Resolutions by Shareholders at the General Meeting, namely:

- the first Resolution approving the Acquisition as a result of the Acquisition constituting a Class 1 transaction; and
- the second and third Resolutions which provide the Directors with the authority to allot the Placing Shares.

The Sale and Purchase Agreement contains representations, warranties, covenants, undertakings and conditions that are customary for a transaction of this size and nature.

Assuming that the Shareholders approve the Resolutions at the General Meeting, Completion is expected to occur on 7 November 2017.

Further details of the Sale and Purchase Agreement are set out in Part V of this Circular.

## **6. Financing of the Acquisition**

Historically the Company has built up net cash balances through strong cash generation. In addition to the proposed acquisition of Seachill, the Board believes there are significant growth opportunities in the medium term. Consequently the Board has put in place appropriate financing to support that growth including bank borrowing facilities and raising equity. The Board expects to carry an amount of gearing on the balance sheet for the medium term. This structure reflects the Board's prudent and conservative approach to financing with target gearing of not more than 2.5x net debt/EBITDA.

In line with our prudent financing strategy your Board today announces that it will fund the Acquisition as follows:

- an issue of new Ordinary Shares, pursuant to the Placing, raising £53.8 million net of expenses; and
- a new banking facility totalling £34 million.

Additional new banking facilities of £84.7 million together with existing net cash balances, which were £38.9 million at 16 July 2017, provide funds for future capital investment and the Group's working capital requirements.

## **7. Details of the Placing**

In order to part fund the Acquisition and as announced earlier today, the Company proposes to raise £53.8 million net of expenses under the underwritten Placing.

Pursuant to the terms of the Placing Agreement dated 18 October 2017, Numis and Panmure Gordon, as agents for the Company, have agreed to use their reasonable endeavours to procure placees to subscribe for the Placing Shares at the Placing Price. To the extent that they do not so procure subscribers, Numis and Panmure Gordon themselves have agreed to subscribe for the relevant Placing Shares. Accordingly, the Placing is being fully underwritten by Numis and Panmure Gordon on the terms and subject to the conditions set out in the Placing Agreement. The Placing Agreement is conditional upon, amongst other things, the Resolutions being duly passed at the General Meeting, the Placing Agreement not being terminated and Admission. The Placing shall become unconditional on Admission occurring. Further details in relation to the Placing Agreement and in particular the termination rights of Numis and Panmure Gordon and the conditions of the Placing Agreement are set out in Part VI.

Application will be made for the Placing Shares to be admitted to trading on the Main Market and it is expected that Admission of the Placing Shares will become effective and that dealings in the Placing Shares will commence at 8.00 a.m. on 7 November 2017.

The Placing Shares will be fully paid and will rank *pari passu* in all respects with the existing Ordinary Shares, including the right to receive all dividends and other distributions declared, made or paid after the date of issue. As such the Placing Shares will not be eligible for the current year interim dividend of 5.0p per share which will be paid to shareholders on the register at close of business on 3 November 2017 which is prior to the Admission of the Placing shares.

## **8. Dividend policy**

The Board has adopted a progressive dividend policy. It still expects to retain sufficient capital to fund ongoing operating requirements to invest in the Group's long-term growth and support a continuation of its progressive dividend policy.

For the 52 weeks ended 1 January 2017, the Company paid a full final year dividend of 12.5p per share and interim dividend of 4.6p per share (2016: 1.3p per share final dividend and 4.1p per share first interim dividend and 9.2p per share second interim dividend).

## **9. Financial effects of the Acquisition on the Company**

It is anticipated that the acquisition will be EPS accretive in the first full year of the proposed acquisition. We believe that Hilton and Seachill management's combined expertise in a number of areas will enable the Enlarged Group to operate more efficiently over the medium term. More importantly, the proposed acquisition will provide the foundations for Hilton to offer Seachill's fish

packing expertise strengthened by our supply chain experience to a number of our leading retailer customers both in the UK and Internationally.

An unaudited *pro forma* statement of the net assets of the Company has been prepared for illustrative purposes only to show the effect of the Acquisition as if it had occurred on 16 July 2017. This unaudited *pro forma* statement, and a report thereon by PwC, is set out in Part IV of this Circular.

## **10. General Meeting**

The notice convening the General Meeting to be held at 2-8 The Interchange, Latham Road, Huntingdon, Cambridgeshire PE29 6YE on 6 November 2017 at 10 a.m. is contained at the end of this Circular. The following Resolutions will be proposed at the General Meeting:

- the first resolution is to approve the Acquisition;
- the second resolution is to authorise the Directors, pursuant to section 551 of the Companies Act, to allot the Placing Shares; and
- the third resolution is to disapply the pre-emption rights conferred by section 561 of the Companies Act in respect of the Placing Shares.

## **11. Risk Factors**

For a summary of the risks and uncertainties which the Shareholders should take into account when considering whether to vote in favour of the Resolutions, please refer to Part II of this Circular.

## **12. Action to be taken**

Shareholders will find enclosed with this Circular a Form of Proxy for use in respect of the Resolutions to be proposed at the General Meeting and a reply-paid envelope (in the UK only).

**Whether or not you propose to attend the General Meeting in person, you are strongly encouraged to complete, sign and return your Form of Proxy in accordance with the instructions printed thereon as soon as possible, but in any event so as to be received, by post (or by hand during normal business hours only) at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA no later than 10 a.m. on 2 November 2017 (or, in the case of an adjournment of the General Meeting, not later than 48 hours before the time fixed for the holding of the adjourned meeting).**

**If you hold your Ordinary Shares in uncertificated form (that is, in CREST) you may vote using the CREST Proxy Voting service in accordance with the procedures set out in the CREST Manual (please also refer to the accompanying notes to the Notice of the General Meeting set out at the end of this Circular). Proxies submitted via CREST must be received by the Company's agent (ID RA19) by no later than 10 a.m. on 2 November 2017 (or, in the case of an adjournment, not later than 48 hours before the time fixed for the holding of the adjourned meeting).**

The completion and return of a Form of Proxy or the use of the CREST Proxy Voting service will not prevent you from attending and voting at the General Meeting, or any adjournment thereof.

## **13. Voting undertakings**

The Company has received irrevocable undertakings to vote in favour of the Resolutions from Shareholders who have a beneficial interest in respect of 21,527,852 Ordinary Shares (representing approximately 29.1 per cent. of the issued Ordinary Shares).

This includes irrevocable undertakings to vote in favour of the Resolutions received from the Directors, who between them hold in aggregate 3,503,150 Ordinary Shares (representing approximately 4.7 per cent. of the issued Ordinary Shares).

## **14. Additional information**

Your attention is drawn to the additional information set out in Parts II to VI of this Circular. You are advised to read the whole Circular and not just rely on the key summarised information in this letter.

## **15. Recommendations**

In the Board's opinion, the Acquisition and the Placing are in the best interests of the Company's shareholders as a whole.

Accordingly the Board unanimously recommends that Shareholders vote in favour of the Resolutions to be proposed at the General Meeting as the Directors intend to do in respect of their own beneficial holdings of Ordinary Shares amounting, in aggregate, to 3,503,150 Ordinary Shares (representing approximately 4.7 per cent. of the issued Ordinary Shares).

Yours faithfully

**Colin Smith OBE**

*Non-Executive Chairman*

## PART II

### RISK FACTORS

In addition to the other information contained in this Circular, the Board believes that the following risk factors should be carefully considered in evaluating what action to take in relation to the Resolutions to be proposed at the General Meeting. If any of the following risks materialise, the business, financial condition and prospects of the Company and, following Completion, the Enlarged Group and the Company's share price could be materially and adversely affected to the detriment of the Company. The Directors consider the following risks, which are not set out in any order of priority, to be the material risks of which the Directors are aware. Additional risks and uncertainties not presently known to the Directors, or those which the Directors currently deem immaterial, may also have an adverse effect on the Company and, following Completion, the Enlarged Group.

Shareholders should read this Circular as a whole and not rely solely on the information set out in this section.

#### A. RISKS RELATING TO THE OPERATIONS OF THE HILTON GROUP IMPACTED ON BY THE ACQUISITION

***The Target Group operates in highly competitive markets, often with customers having an ability to switch to alternative suppliers on short notice, and there can be no assurance that, following the Acquisition, the Enlarged Group will be able to compete effectively***

The Target Group operates in highly competitive markets. This market is served by a range of competitors that are active in single or multiple product categories, and in some cases across several geographies. Some of the Target Group's competitors are large firms which may have greater financial resources than the Enlarged Group and/or greater ability to adapt to changing market conditions or an increasingly competitive market environment.

Following the Acquisition, the Enlarged Group may not be able to compete effectively with current competitors or with potential new competitors. Significant product innovation and/or technical advances by competitors, the intensification of price competition or the adoption by the competitors of new pricing or promotional strategies could adversely affect the Enlarged Group's competitive position and ability to market and sell its products and therefore adversely affect its business, results of operations, financial condition and/or prospects. In addition, the Enlarged Group's ability to compete effectively requires it to be successful in customer acquisition and retention, product development and innovation, operational efficiency and effective manufacturing and procurement processes.

While, following the Acquisition, some of the Enlarged Group's business will be subject to long-term contractual agreements with customers (as is currently the case for the Hilton Group), some of these contracts will not define the absolute volume of business that a particular customer will require which means that these customers could choose to move some or all of their business to the Enlarged Group's competitors. In addition, the Target Group and, following the Acquisition, the Enlarged Group operate in several sectors where business is undertaken without long-term contracts and customers generally have the ability to switch to alternative suppliers on short notice.

The Enlarged Group will therefore be subject to the risk that a deterioration in its competitive position may have an immediate impact on its ability to compete effectively with its competitors, and ultimately adversely and significantly impact on its business, results of operations, financial condition and/or prospects.

***Demand for the Enlarged Group's products may be affected by changes in consumer behaviour and demand and changes in consumer legislation***

The Hilton Group and the Target Group are dependent on their ability to produce food products that meet consumer demand and that are in line with legislation covering food that impacts the requirements of its customers.

There are a number of trends in consumer preferences and consumer legislation in the UK and the EU and which impact the industry as a whole. These trends include, amongst others, dietary concerns (including salt, sugar and fat reduction), the provenance and traceability of ingredients and nutritional requirements. These trends may reduce demand for the products that the Enlarged Group produces. In addition, providing or developing modified or alternative products to meet

changing consumer trends may lead to increased costs. The Acquisition would increase the Enlarged Group's exposure to changes in market trends relating to the supply of seafood products.

Additionally, the Target Group and, following the Acquisition, the Enlarged Group (as is currently the case for the Hilton Group) may also be subject to changes in regulation to address concerns in relation to dietary trends and the supply of perishable items. This could include the introduction of additional labelling requirements, and levying additional taxes on, or restricting the production or advertising of, certain product types, which could increase the Enlarged Group's costs for compliance or make it more difficult for the Enlarged Group to market its products, which could adversely affect the Enlarged Group's business, results from operations, financial condition and/or prospects. As a result of the Acquisition, the Enlarged Group's exposure to changes in regulations relating to these issues will increase relative to its current exposure.

***The Target Group's and, following the Acquisition, the Enlarged Group's success may depend on their customers' brands, reputations and relationships***

The Enlarged Group's performance is dependent on the continued strength of the Target Group's customers' brands under which its products are sold. Given that the Hilton Group does not currently have exposure to the supply of seafood, the Acquisition will significantly increase the exposure of the Enlarged Group to the issues arising in connection with the supply of seafood to its customers.

Damage to the reputation of the Hilton Group's and/or the Target Group's customers' brands may arise from a range of factors, including, without limitation, food safety concerns, damaging publicity in connection with their products or their customers, regulatory, legal, economic and political factors, which make a customer's brands less attractive to the customer's consumers and potentially reduce the amount of product ordered by that customer. In addition, increased competition may require more management time and resources and greater levels of expenditure to maintain and develop their brands, which may have a material adverse effect on their operations, financial performance and prospects. This could in turn negatively affect the Enlarged Group's business, results of operations, financial condition and/or prospects.

***The Target Group's and, following the Acquisition, the Enlarged Group's success depends on the continued contributions of its executive officers and senior management, both individually and as a group***

The successful operation of the Target Group and, following the Acquisition, the Enlarged Group, relies on the expertise and capabilities of its senior management and personnel. The departure or incapacity of a key member of management of either the Hilton Group or the Target Group could, therefore, have a detrimental effect on the operating performance of the Hilton Group and, following the Acquisition, the Enlarged Group and there can be no certainty that any such employee could be replaced in a timely manner by a suitably experienced candidate.

In the event that future departures of employees occur, the Hilton Group's ability to execute its business strategy successfully, or to continue to provide services to its customers and users or attract new customers and users, could be adversely affected. The loss of the services of any of the key management personnel or the failure to retain key employees could adversely affect the Company's ability to maintain and / or improve its operating and financial performance.

***Failure by the Target Group, the Enlarged Group or third-party suppliers to comply with food safety or other regulations or customer requirements may adversely affect the business of the Hilton Group and, following the Acquisition, the Enlarged Group. Furthermore, the Enlarged Group (as is currently the case for the Hilton Group) is at risk from significant and rapid changes in legal systems, regulatory controls, and customs and practices in the countries in which they operate***

Law and regulation in the UK, the EU and Australia affect a wide range of areas relevant to the Hilton Group's and the Target Group's businesses, including the composition, production, packaging, labelling, distribution and sale of the products; their property rights; their ability to transfer funds and assets between group companies or externally; employment practices; data protection; environment; health and safety issues; and accounting, taxation and stock exchange regulation.

The Hilton Group and the Target Group also rely on third-party suppliers to supply raw materials. Such suppliers are subject to a number of regulations, including food safety regulations. Failure by

any of these suppliers to comply with regulations, or allegations of compliance failure, may disrupt their ability to supply raw materials relied upon by the Enlarged Group resulting in the disruption of its business. Any such disruption may have an adverse effect on the business, results of operations, financial condition and/or prospects of the Enlarged Group.

As a supplier of products intended for human consumption, the Enlarged Group will be subject to extensive regulation, including with respect to product composition, manufacturing, storage, handling, packaging, labelling and the safety of its products. It may also be subject to customer-mandated obligations in addition to regulatory requirements. Any non-compliance with applicable laws and regulations may subject the Enlarged Group to civil remedies, including fines, injunctions, damages, personal injuries liability, product recalls or asset seizures, as well as potential criminal sanctions, any of which may adversely affect the Enlarged Group's business, operating results, financial condition and/or prospects. Any failure to comply with such regulations may also adversely affect customers' perception of the Enlarged Group. Any failure to comply with customer-mandated obligations could also result in loss of customer contracts, orders or damages that may adversely affect the Enlarged Group's business, results of operations, financial condition and/or prospects.

As a result of the Acquisition, the Hilton Group's exposure to risks of regulatory change will increase relative to its current exposure. In addition, as a result of the Acquisition, the number of significant customers of the Enlarged Group may increase, with a corresponding increase in the number of different customer requirements to be complied with, which could add complexity and require further compliance and quality control measures for the Enlarged Group.

***The Enlarged Group will be exposed to greater exchange rate risk***

While Hilton's foreign currency risk is actively managed by Hilton under strict policies and guidelines approved by the Directors and while the Hilton Group is able to use foreign currency derivative financial instruments to manage the foreign currency risk associated with the underlying business activities of the Hilton Group, in the multi-currency and multi-national trading environment in which the Hilton Group operates, there are inherent risks associated with fluctuation in foreign exchange rates. The Hilton Group does not currently hedge against such transnational foreign exchange risk.

The Hilton Group's reporting currency is pounds sterling, and will remain so for the Enlarged Group after the Acquisition, but part of its income and expenditure will be in other currencies, notably the Euro, Swedish Krona, Danish Krone, Polish Zloty and Australian Dollar. Following the Acquisition, the portion of the Enlarged Group's UK income is expected to increase and expenditure in Norwegian Krone is expected to increase. The outcome of the UK referendum on the UK's exit from the EU may result in changes or fluctuations in the value of the pound sterling versus other currencies. Because the Company's reporting currency is and, after the Acquisition, will be pounds sterling, and a significant portion of its financing, revenues and costs will be denominated in Euro, Swedish Krona, Danish Krone, Polish Zloty, Australian Dollar and Norwegian Krone, volatility in the exchange rate will result in volatility in the reported results of operations of the Hilton Group and, following the Acquisition, the Enlarged Group, and this may have an adverse impact on revenues generated from its European operations and in Australia

The Enlarged Group, particularly in its UK divisions, depends on raw materials sources purchased directly or indirectly from jurisdictions using currencies other than pounds sterling. Adverse fluctuations in the pound sterling exchange rate relative to those other currencies could increase the cost in pounds sterling to the Hilton Group of such raw materials.

As a result of the foregoing, any significant fluctuations in exchange rates, may have an adverse effect on the Enlarged Group's non-pounds sterling assets and liabilities (resulting in changes to their balance sheet values), business, results of operations, financial condition and/or prospects. As a result of the Acquisition, the Hilton Group's exposure to this risk will increase relative to its current exposure due to the increase in the relative size of its business denominated in Norwegian Krone

***The Enlarged Group could be adversely affected by changes in current tax law or practice in the UK and other relevant jurisdictions***

The Hilton Group and the Target Group are subject to any changes in tax legislation (or changes to the interpretation of or practices in respect of existing tax legislation) in the jurisdictions in which it operates, including the UK. Any such changes could have a material adverse impact on the Enlarged Group's business, results of operations, financial condition and/or prospects.

***The Enlarged Group is subject to risks arising from economic conditions in the UK and other markets in which it operates and from risks arising from the continuing global economic weakness, such as those associated with the Eurozone crisis and the vote by the UK to leave the European Union, also known as “Brexit”.***

The exact impact of market risks faced by the Enlarged Group is uncertain, difficult to predict and respond to, in particular, in view of (i) the unpredictable consequences of the vote by the UK to leave the European Union, also known as “Brexit”, (ii) difficulties in predicting the rate at which any economic deterioration may occur, and over what duration and (iii) the fact that many of the related risks to the business are totally, or partly, outside the control of the Hilton Group.

***The Enlarged Group is exposed to risks arising from the outcome of Brexit trade negotiations, specifically relating to trade in agricultural commodities and food products and the freedom of movement of workers***

As a result of the vote by the UK to leave the European Union, the UK is in the process of negotiating with the EU and EU Free Trade Agreement (FTA) countries. Although the outcome is uncertain, there may be implications on import and export tariffs, food safety, animal and human health measures and quality standards, which could present economic or technical barriers to trade. Any such changes could have a material adverse impact on the Enlarged Group’s business and/or financial condition. As a result of the Acquisition, the Hilton Group’s exposure to the risk of any changes to trade arrangements with EU FTA countries will increase due to the Target Group’s commercial agreements with Norwegian suppliers.

Furthermore, the Enlarged Group employs a significant number of its staff from the European Union who primarily work in the Enlarged Group’s food production facilities. In the event that the UK leaves the European Union this will impact on the immigration status of employees across both the EU and UK. Any loss of free movement will likely result in increased compliance costs and delays for cross-border workers and any imposition of immigration quotas (EU or otherwise) may make it difficult for the Enlarged Group to attract and retain workers to its UK operations which could have a material adverse impact on the Enlarged Group’s business and/or financial condition.

## **B. RISKS RELATING TO THE ACQUISITION**

***Warranties and indemnities given by Seller in the Sale and Purchase Agreement may provide limited protection for the Company***

The Sale and Purchase Agreement contains certain warranties and indemnities given in favour of the Buyer and the Company, breach of which could cause the Enlarged Group to incur liabilities and obligations in the event that it seeks to make a claim for such breach.

As is usual in such a transaction, the warranties and indemnities in the Sale and Purchase Agreement are subject to specific, negotiated limitations also contained in the Sale and Purchase Agreement and therefore do not provide the Company with full protection in relation to all risks related to the Target’s business.

As a result of such limitations, the right of the Enlarged Group to recover damages or compensation in the event of contingent liabilities covered by such warranties or indemnities crystallising or an undisclosed liability of the Target being discovered after Completion, may not be sufficient to cover the full extent of the relevant liability and the Company may not have recourse against the Seller in respect of any loss suffered.

Further, the warranty and indemnity insurance policy taken out by the Buyer in respect of the Acquisition is subject to a number of exclusions, and will not cover all breaches under the Sale and Purchase Agreement.

***Implementation of the Acquisition is subject to the Conditions and Completion may not occur***  
Completion is subject to the passing of the Resolutions at the General Meeting.

Moreover, if this condition is not satisfied and Completion of the Acquisition does not occur or is delayed, Hilton’s ability to improve shareholder value and to implement the Board’s strategic objectives may be prejudiced and this may have an adverse impact on Hilton’s share price. Certain transaction costs incurred by the Hilton Group in connection with the Acquisition will be irrecoverable if the Acquisition does not proceed.

***The anticipated benefits of the Acquisition may not be realised and the integration of the businesses of the Target Group and the Hilton Group will create a number of challenges***

The Hilton Group will encounter numerous challenges in combining its current operations with the operations of the Target Group, some of which may not become known until after Completion.

The integration involves certain risks including the following:

- loss or incapacity of key personnel;
- loss of key customers or disruption of the relationships or commercial terms with key customers;
- difficulties in integrating the financial, food safety, technological and management standards, processes, procedures and controls of the two groups;
- attempts by third parties to terminate or alter their contracts with the Enlarged Group; and
- any changes in tax legislation, changes to the interpretation of, or practices in respect of, tax legislation may negatively impact the Hilton Group's and/or the Target Group's business, results of operations, financial condition, business strategy and/or prospects. Any such changes and/or any negative changes to the Enlarged Group's future profits could result in a change in the timing of the use of tax assets, thereby reducing the benefits relating to same.

The Acquisition could fail to realise the expected benefits or could result in substantial costs being incurred as a result of, for example, inconsistencies in standards, procedures and policies and business cultures between the Hilton Group and Target Group and the diversion of management's attention from their responsibilities as a result of the need to address integration issues.

The Enlarged Group will be required to devote significant management attention and resources to integrating Hilton's and the Target Group's business practices and operations. There is a risk that the challenges associated with managing the Enlarged Group will result in management distraction or overstretch and that consequently the underlying businesses will not perform in line with expectations and/or that the Enlarged Group may incur additional costs due to greater reliance on external advisers.

All factors described above may have a significant adverse impact on the business, results of operations, financial condition and/or prospects of the Enlarged Group.

***Following the Acquisition, an impairment of goodwill or other intangible assets would adversely affect the Hilton Group's business and financial condition***

Upon Completion, a significant portion of the difference between the Consideration, the Target's net assets at that date and the allocation of costs of the Acquisition to the assets acquired and the liabilities assumed, will be recorded as intangible assets including goodwill. Under IFRS, goodwill is not amortised but is tested for impairment annually or more often if an event or circumstance indicates that an impairment loss may have been incurred. Other intangible assets with a finite life are amortised on a straight-line basis over their estimated useful lives and reviewed for impairment whenever there is an indication of impairment. In particular, if the business of the Enlarged Group does not develop as expected, impairment charges may be incurred in the future, which could be significant and which could have an adverse impact on the Hilton Group's business and financial condition.

***Rights to terminate in the Target Group's contracts may be exercised by counterparties in connection with the Acquisition***

Members of the Target Group are party to a number of ordinary course contracts that enable the counterparty to terminate the relevant contract upon the occurrence of a change-of-control event or to terminate for convenience. While Hilton has not identified any material contracts during the course of its due diligence of the Target under which the counterparty may or is expected to exercise a right to terminate as a result of the Acquisition, there can be no assurance that a contract will not be terminated or that Hilton has identified all of the Target's contracts with change-of-control or early termination clauses that are material to its business. In addition, while Hilton has reviewed the Target's commercial relationship with its key customers and considers it unlikely that they will seek to terminate their arrangements with the Enlarged Group following the Acquisition, some of these counterparties could also seek to renegotiate these contracts as they consider exercising any such termination rights (including rights to terminate for convenience irrespective of change of control). There can be no assurance that the Target Group or the Enlarged Group will

be able to renegotiate any such contracts on favourable terms or at all. If a counterparty to a contract exercises its right to terminate a material contract, or counterparties exercise their rights to terminate a number of contracts, or counterparties seek to re-negotiate contracts, this could have a material adverse effect on the Enlarged Group's business, results of operations, financial condition and prospects.

#### ***Customer concentration risk***

Whilst the Hilton Group's intention is to expand the Target Group's customer base following Completion, the Target Group's largest customer, Tesco, accounts for approximately 80% of its net sales. The Hilton Group already has a longstanding relationship with Tesco. However, any deterioration of the Enlarged Group's relationship with Tesco could have a material adverse effect on the Enlarged Group's business, results of operations, financial condition and prospects.

#### ***A significant proportion of the Target Group's customer relationships are terminable on short notice and/or expose the Group to uncapped liabilities in the event of a breach of contract***

Many of the formal agreements the Target Group has entered into with its retail customers provide the counterparties with a right to terminate at short notice in the event of a breach of contract. Furthermore, certain of the arrangements are on relatively short term contracts or only continue for so long as orders are made by the retailer, including that of Tesco (which accounts for approximately 80% of the Target Group's net sales), whose current commitment period expires in August 2020. While in certain cases the Target Group has entered into longer term agreements, no assurances can be given that certain retail customers will continue to trade with the Target Group which could reduce the Enlarged Group's revenue, thereby adversely affecting its business, financial condition and results of operations.

Furthermore, the contracts entered into with the Target Group's retail customers contain indemnities which, following Completion, will expose the Enlarged Group to several uncapped liabilities in the event that claims are made by the relevant parties in certain circumstance (including losses incurred through data breach; negligent acts of employees/ agents; and as regards goods, defects, alleged defects and claims as a result of use of the goods). Some of the indemnities are given in relation to any breach of contract committed by the Target Group, regardless of how immaterial this may be. Furthermore, other indemnities given by the Target Group relate to the actions of third parties outside of the control of the Target Group. In the event that the Target Group is in breach of an agreement resulting in a material loss to the customer, this could expose the Enlarged Group to a potentially uncapped liability thereby adversely affecting its business, financial condition and results of operations.

#### ***A significant proportion of the Target Group's procurement of fish is based on informal arrangements with its suppliers***

No formal agreements are in place with a significant number of the Target's Group's suppliers of fish (including cod, haddock and salmon) in respect of their trading arrangements with the Target Group and as such, these arrangements may be terminated on short notice without cause. Furthermore, the Target Group procures its trout from an exclusive supplier. In the event one or more of the Target Group's suppliers terminates its arrangement or, in regard to the supplier of trout, is otherwise unable to deliver the required stock, this would disrupt the Target Group's supply chain and adversely affect the business, financial condition and results of operations of the Enlarged Group.

### **C. NEW RISKS RELATING TO THE ENLARGED GROUP**

#### ***Business strategy***

The success of the Enlarged Group will depend on the Directors' ability to implement its business strategy effectively. Part of the Hilton Group's strategy is to build volumes and extend its product ranges for existing customers which it expects to achieve through the Acquisition, as the Hilton Group does not currently have a presence in the supply of fish market. Factors outside of the control of the Directors (including changes in the markets in which the Hilton Group currently operates and changes in the supply of fish market) may negatively affect the implementation of the business strategy. If such changes occur, the Directors may decide to change certain aspects of its strategy, perhaps by developing additional services. There can be no assurance that the Enlarged Group will be successful in implementing its strategy, including integrating the Target.

All of these market risks could place a strain on the Enlarged Group's resources which could in turn have an adverse material impact on the financial condition and performance of the business of the Enlarged Group.

***Failure of a manufacturing partner could have a material adverse effect on the Company's business, results of operations, financial condition or prospects***

The Company relies upon its suppliers for a significant proportion of its revenue and profits. Through the Acquisition, the Company is entering into a new market and consequently, relationships with new suppliers with whom it has not previously had longstanding relationships. If there was a material adverse change to one of its partner's operations, this could have a material adverse effect on the Company's business, results of operations, financial condition or prospects of the Company.

## PART III

### FINANCIAL INFORMATION ON THE TARGET GROUP

#### SECTION A: ACCOUNTANT'S REPORT ON ICELANDIC GROUP UK LIMITED'S HISTORICAL FINANCIAL INFORMATION



The Directors  
Hilton Food Group plc  
2-8 The Interchange  
Latham Road  
Huntingdon  
Cambridgeshire  
PE29 6YE

Numis Securities Limited  
The London Stock Exchange Building  
10 Paternoster Square  
London  
EC4M 7LT

18 October 2017

Dear Sirs

#### **Icelandic Group UK Limited**

We report on the financial information relating to Icelandic Group UK Limited for the three years ended 31 December 2016 set out in Section B of Part III (the “**Financial Information Table**”). The Financial Information Table has been prepared for inclusion in the Class 1 circular dated 18 October 2017 (the “**Circular**”) of Hilton Food Group plc (the “**Company**”) on the basis of the accounting policies set out in note 2 to the Financial Information Table. This report is required by item 13.5.21R of the Listing Rules of the United Kingdom Listing Authority (the “**Listing Rules**”) and is given for the purpose of complying with that item and for no other purpose.

#### **Responsibilities**

The Directors of the Company are responsible for preparing the Financial Information Table in accordance with International Financial Reporting Standards as adopted by the European Union and in a form that is consistent with the accounting policies adopted in the Company's latest annual accounts.

It is our responsibility to form an opinion as to whether the Financial Information Table gives a true and fair view, for the purposes of the Circular and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to shareholders of the Company as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such

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person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 13.4.1R(6) of the Listing Rules, consenting to its inclusion in the Circular.

### **Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to Icelandic Group UK Limited's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

### **Opinion**

In our opinion, the Financial Information Table gives, for the purposes of the Circular dated 18 October 2017, a true and fair view of the state of affairs of Icelandic Group UK Limited as at the dates stated and of its losses/profits, cash flows and changes in equity for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Yours faithfully

PricewaterhouseCoopers LLP  
Chartered Accountants

## SECTION B: HISTORICAL FINANCIAL INFORMATION RELATING TO ICELANDIC GROUP UK LIMITED

### Consolidated income statement

		For 12 months to 31 December		
		2014	2015	2016
		£'000	£'000	£'000
	Notes	<u>          </u>	<u>          </u>	<u>          </u>
Continuing operations				
<b>Revenue</b>	5	258,837	248,413	266,317
Cost of sales		<u>(220,950)</u>	<u>(209,846)</u>	<u>(227,144)</u>
<b>Gross profit</b>		37,887	38,567	39,173
Distribution costs		(6,676)	(5,251)	(5,463)
Administrative expenses		<u>(32,925)</u>	<u>(29,303)</u>	<u>(30,277)</u>
<b>Operating (loss)/profit</b>		<u>(1,714)</u>	<u>4,013</u>	<u>3,433</u>
Finance income	8	12	—	—
Finance costs	8	(1,260)	(1,101)	(1,740)
Finance costs – net	8	<u>(1,248)</u>	<u>(1,101)</u>	<u>(1,740)</u>
<b>(Loss)/profit before income tax</b>		(2,962)	2,912	1,693
Income tax credit/(expense)	9	504	(598)	(440)
<b>(Loss)/profit for the year</b>		<u>(2,458)</u>	<u>2,314</u>	<u>1,253</u>

There was no other comprehensive income other than the profit for each of the financial years.

## Consolidated balance sheet

		As at 31 December			
Notes	2013 £'000	2014 £'000	2015 £'000	2016 £'000	
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	10	26,047	21,867	20,814	20,786
Intangible assets	11	33,890	33,959	33,939	33,846
Investments	12	84	84	84	84
Deferred income tax assets	18	229	311	115	330
		<u>60,250</u>	<u>56,221</u>	<u>54,952</u>	<u>55,046</u>
<b>Current assets</b>					
Inventories	13	26,677	25,326	24,087	24,077
Trade and other receivables	14	28,966	20,481	22,247	13,580
Current income tax assets		—	363	96	—
Cash and cash equivalents	15	7,335	6,830	6,832	8,771
		<u>62,978</u>	<u>53,000</u>	<u>53,262</u>	<u>46,428</u>
<b>Total assets</b>		<u><u>123,228</u></u>	<u><u>109,221</u></u>	<u><u>108,214</u></u>	<u><u>101,474</u></u>
<b>Equity</b>					
Equity attributable to owners of the parent					
Ordinary shares	19	25,012	25,012	25,012	25,012
Retained earnings		23,022	20,564	22,878	24,131
<b>Total equity</b>		<u><u>48,034</u></u>	<u><u>45,576</u></u>	<u><u>47,890</u></u>	<u><u>49,143</u></u>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Borrowings	16	22,470	19,950	17,430	10,000
Trade and other payables	17	2,142	5,873	4,992	—
Deferred income tax liabilities	18	469	77	277	171
Provisions	17	347	281	281	1,963
		<u>25,428</u>	<u>26,181</u>	<u>22,980</u>	<u>12,134</u>
<b>Current liabilities</b>					
Borrowings	16	2,520	3,659	2,520	—
Trade and other payables	17	46,929	33,805	34,824	39,533
Current income tax liabilities		317	—	—	664
		<u>49,766</u>	<u>37,464</u>	<u>37,344</u>	<u>40,197</u>
<b>Total liabilities</b>		<u><u>75,194</u></u>	<u><u>63,645</u></u>	<u><u>60,324</u></u>	<u><u>52,331</u></u>
<b>Total equity and liabilities</b>		<u><u>123,228</u></u>	<u><u>109,221</u></u>	<u><u>108,214</u></u>	<u><u>101,474</u></u>

## Consolidated statement of changes in equity

	<b>Attributable to owners of the parent</b>		
<b>Notes</b>	<b>Share capital £'000</b>	<b>Retained earnings £'000</b>	<b>Total £'000</b>
Balance at 1 January 2014	25,012	23,022	48,034
Loss for the year	—	(2,458)	(2,458)
Total comprehensive loss for the year	—	(2,458)	(2,458)
Balance at 31 December 2014	25,012	20,564	45,576
Profit for the year	—	2,314	2,314
Total comprehensive income for the year	—	2,314	2,314
Balance at 31 December 2015	25,012	22,878	47,890
Profit for the year	—	1,253	1,253
Total comprehensive income for the year	—	1,253	1,253
Balance at 31 December 2016	25,012	24,131	49,143

## Consolidated cash flow statement

	<b>Notes</b>	<b>2014 £'000</b>	<b>2015 £'000</b>	<b>2016 £'000</b>
<b>Cash flows from operating activities</b>				
Cash generated from operations	20	4,296	7,265	16,337
Interest paid		(1,260)	(1,101)	(970)
Income tax (paid)/received		(650)	65	(1)
Net cash generated from operating activities		<u>2,386</u>	<u>6,229</u>	<u>15,366</u>
<b>Cash flows from investing activities</b>				
Purchases of property, plant and equipment		(1,362)	(2,696)	(3,698)
Proceeds from sale of property, plant and equipment		57	209	363
Purchases of intangible assets		(217)	(81)	(142)
Interest received		12	—	—
Net cash used in investing activities		<u>(1,510)</u>	<u>(2,568)</u>	<u>(3,477)</u>
<b>Cash flows from financing activities</b>				
Repayments of borrowings		(1,381)	(3,659)	(19,950)
New borrowings		—	—	10,000
Net cash used in financing activities		<u>(1,381)</u>	<u>(3,659)</u>	<u>(9,950)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		(505)	2	1,939
Cash and cash equivalents at beginning of the year		<u>7,335</u>	<u>6,830</u>	<u>6,832</u>
<b>Cash and cash equivalents at end of the year</b>	15	<u>6,830</u>	<u>6,832</u>	<u>8,771</u>

## **Notes to the historical financial information**

### **1. General Information**

Icelandic Group UK Limited (“the Company”) and its subsidiaries (together “the Group”) is a retail fish packing business supplying major food retailers. The Company’s subsidiaries are listed in note 12.

The Company is a private limited company incorporated and domiciled in the UK. The address of the registered office is Estate Road No 2, South Humberside Industrial Estate, Grimsby DN31 2TG. The registered number of the Company is 00481280.

### **2. Summary of significant accounting policies**

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

#### **Basis of preparation**

The historical consolidated financial information of the Group has been prepared under the historical cost convention and in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and IFRIC interpretations. This is the first time the Company has adopted IFRS, as set out in note 24.

The consolidated financial statements have been prepared on the going concern basis. The company meets its day-to-day working capital requirements through operating cash flows and a revolving credit facility committed to 2020. Because of this, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to prepare the historical financial information on a going concern basis.

The historical financial information is presented in Sterling and all values are rounded to the nearest thousand (£’000) except when otherwise indicated.

The preparation of historical financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the historical financial information is disclosed in note 4. The accounting policies applied are consistent with those adopted by Hilton Food Group plc in its financial statements for the 52 weeks ended 1 January 2017.

#### **Basis of consolidation**

This historical financial information comprises the historical financial information of Icelandic Group UK Limited (“the Company”) and its subsidiaries, together, (“the Group”). Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

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

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

The Group’s share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment.

## **International Financial Reporting Standards**

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

Amendment to IFRS 10 (Consolidated financial statements) and IAS 28 (Investments in associates) on sale or contribution of assets (to be determined) (\*)

Amendment to IAS 7 (Statement of cash flows) on disclosure initiative (1 January 2017) (\*)

Amendment to IAS 12 (Income taxes) on recognition of deferred tax assets for unrealised losses (1 January 2017) (\*)

IFRS 9 (Financial instruments) (1 January 2018)

Amendment to IFRS 9 (Financial instruments) on general hedge accounting (1 January 2018) (\*)

Amendment to IFRS 4 'Insurance contracts' regarding the implementation of IFRS 9, 'Financial instruments' (1 January 2018) (\*)

IFRS 14 (Regulatory deferral accounts) (1 January 2016) (\*)

IFRS 15 (Revenue from customers with contracts) (1 January 2018)

Amendment to IAS 15 (Revenue from customers with contracts) (1 January 2018)

IFRS 16 (Leases) (1 January 2019) (\*)

IFRIC 22 (Foreign currency transactions and advance consideration) (1 January 2018) (\*)

IAS 40 (Investment property) on transfers of investment property (1 January 2018) (\*)

Amendment to IFRS 2 (Share-based payment) on clarifying share-based payment transactions (1 January 2018) (\*)

(\*) Not yet endorsed by the EU

Other than IFRS 16 none of these IFRSs, IFRIC interpretations or amendments are expected to have a material impact on the Group. Under IFRS 16 the Group expects a number of operating leases to become "on-balance sheet", with the biggest impact being on the Group's operating leases for property.

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

## **Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue may be increased and/or decreased by reference to a range of pre-agreed and pre-defined performance measures.

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

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

## **Segment reporting**

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

## Foreign currency translation

### (a) Functional and presentation currency

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

### (b) Transactions and balances

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

### (c) Group companies

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

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

## Property, plant and equipment

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

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

	<b>Annual rate</b>
Buildings including leasehold improvements	0% – 2.5%
Plant and machinery	10% – 33%
Fixtures and fittings	10% – 20%

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

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

## Intangible assets

### (a) Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units. It is not amortised but is tested annually for impairment.

*(b) Other intangible assets*

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and less accumulated impairment losses.

Other intangible assets are amortised from the date they are available for use on a straight-line basis over their estimated useful lives of 1 – 5 years.

*(c) Research and development costs*

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

### **Impairment of non-financial assets**

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

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

### **Financial assets**

*(a) Classification*

The Group classifies its financial assets in the following categories: at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

- Financial assets at fair value through profit or loss – Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current investments.
- Loans and receivables – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet

*(b) Recognition and measurement*

Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Loans and receivables are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method. Financial assets are derecognised when the rights to receive cash flows from the investments have

expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss' category are presented in the income statement within interest income or expenses in the period in which they arise.

*(c) Impairment of financial assets*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

### **Inventories**

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

### **Trade and other receivables**

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

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

### **Cash and cash equivalents**

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

### **Share capital and reserves**

Ordinary shares are classified as equity.

### **Trade and other payables**

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

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

### **Borrowings**

All borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction

costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

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

Borrowing costs directly attributable to an acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

### **Leases**

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

Leases where the lessor retains substantially all of the risks and rewards of ownership are classified as operating leases. The annual rentals under operating leases are charged to the income statement as incurred on a straight line basis over the period of the lease.

### **Current and deferred income tax**

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

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

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

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

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

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

### **Pensions and other post-employment benefits**

The Group operates defined contribution schemes for certain employees and pays contributions to publicly or privately administered pension insurance plans and has no further payment obligations once the contributions have been made. The contributions are recognised as an employee benefit expense when they are due.

## Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

### 3. Financial risk management

#### Financial risk factors

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

#### (a) Market risk

##### (i) Price risk

The Group is not exposed to equity securities price risk as it holds no listed or other equity investments. The Group is exposed to commodity price risk which is significantly mitigated through its customer agreements.

##### (ii) Foreign exchange risk

The Group is exposed to foreign exchange risk in the normal course of business in its overseas operations, principally on transactions in Norwegian Krone. The Group regularly monitors foreign exchange exposure and enters into currency forward contracts to hedge its foreign exchange position.

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

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

##### (iv) Sensitivity analysis

	2014 £'000	2015 £'000	2016 £'000
Annual effect of a change in Group-wide interest rates by 0.5%			
Income statement	117	109	70
	<b>-117</b>	<b>-109</b>	<b>-70</b>
Equity	117	109	70
	<b>-117</b>	<b>-109</b>	<b>-70</b>

#### (b) Credit risk

The Group is exposed to credit risk in respect of credit exposures to its retail customers and banking arrangements. The Group, whose customers mainly comprise blue chip supermarket retailers, has implemented policies that require appropriate credit checks on potential customers before sales are made and in relation to its banking partners. The Group's maximum exposure to credit risk is £21.5m (2015: £28.3m, 2014: £26.3m) as stated in note 23.

#### (c) Liquidity risk

The Group monitors regular cash forecasts to ensure that it has sufficient cash to meet operational needs whilst maintaining sufficient headroom on its undrawn committed borrowing facilities and without breaching its banking covenants. The Group held cash and cash equivalents of £8.8m (2015: £6.8m, 2014: £6.8m) and maintains a mix of long term and short term debt finance.

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

	<u>Less than one year</u>	<u>Between one and two years</u>	<u>Between two and five years</u>	<u>Over five years</u>
<b>2014</b>				
Borrowings	3,659	2,520	17,430	—
Trade and other payables	39,678	—	—	—
<b>2015</b>				
Borrowings	2,520	2,520	14,910	—
Trade and other payables	39,816	—	—	—
<b>2016</b>				
Borrowings	—	—	10,000	—
Trade and other payables	38,763	—	—	—
Derivative financial liabilities	770	—	—	—
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

### Capital risk management

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

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

The Group monitors capital on the basis of a gearing ratio. This ratio is calculated as net debt divided by EBITDA. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown on the consolidated balance sheet) less cash and cash equivalents. EBITDA is calculated as operating profit before interest, tax, depreciation and amortisation. There was gearing of 0.2 as at the year end (2015: 1.7, 2014: 4.0).

### Fair value estimation

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

## 4. Critical accounting estimates and judgements

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

The key areas requiring the use of estimates and judgement which may significantly affect the historical financial information are considered to be:

- a) Asset Impairment – The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. An asset is considered impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. If any such indication exists the asset's recoverable amount is estimated.
- b) Inventories – Group policy is that inventory items greater than 12 months old are provided for at 100%. However, where stock is frozen an exception to this policy is allowed which gives local management the flexibility to assess stocks between 12 and 18 months to ensure that their product life and quality is maintained. Where inventory forms part of a product line that

has been delisted by a customer, is expected to be delisted by the customer or has been produced for a customer that is no longer supplied by the Group, management makes a judgement on the recoverability of the relevant inventory at least annually.

- c) Goodwill – Goodwill is tested annually for impairment. Key judgements impacting the impairment assessment are the cash flow forecast of the CGU concerned and the discount rates applied. Details of this are explained in note 11.

## 5. Segment information

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

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

From a geographic perspective, the Executive Directors consider that the Group has one operating segment being Western Europe. From a product perspective the Executive Directors consider that the Group has only one identifiable product, wholesaling of food protein products including meat and fish. The Executive Directors consider that no further segmentation is appropriate, as all of the Group's operations are subject to similar risks and returns and exhibit similar long term financial performance.

The amounts provided to the Executive Directors with respect to total assets and liabilities are measured in a manner consistent with that of the historical financial information. The assets are allocated based on the operations of the segment and their physical location. The liabilities are allocated based on the operations of the segment.

The Group has two principal customers during the periods presented (comprising groups of entities known to be under common control), Tesco and Marks & Spencer. These customers are located in Western Europe.

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

	Revenues from external customers			Non-current assets excluding deferred tax assets		
	2014 £'000	2015 £'000	2016 £'000	2014 £'000	2015 £'000	2016 £'000
Analysis by geographical area						
United Kingdom – country of domicile	250,367	243,185	264,045	55,910	54,837	54,716
Rest of Europe	5,412	3,977	1,056	—	—	—
Rest of World	3,058	1,251	1,216	—	—	—
	<u>258,837</u>	<u>248,413</u>	<u>266,317</u>	<u>55,910</u>	<u>54,837</u>	<u>54,716</u>
Analysis by principal customer						
Customer 1	150,546	153,611	179,141			
Customer 2	65,156	55,819	49,775			
Other	43,135	38,983	37,401			
	<u>258,837</u>	<u>248,413</u>	<u>266,317</u>			

## 6. Expenses by nature

	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Changes in inventories of finished goods and goods for resale	(1,193)	3,308	1,327
Raw materials and consumables used	192,773	182,816	196,777
Employee benefit expense (note 7)	34,212	31,548	34,181
Depreciation and amortisation	4,637	3,699	3,620
Impairment of tangible fixed assets	1,017	—	—
Repairs and maintenance expenditure on property, plant and equipment	804	718	796
Hire of plant and machinery	104	51	67
Transportation expenses	6,676	5,251	5,463
Operating lease payments	431	510	536
Foreign exchange losses	31	36	41
Other expenses	21,059	16,463	20,076
<b>Total cost of sales, distribution costs and administrative expenses</b>	<b>260,551</b>	<b>244,400</b>	<b>262,884</b>

## 7. Employee benefit expense

	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Staff costs during the year</b>			
Wages and salaries	31,406	28,855	31,396
Social security costs	2,056	1,871	1,914
Other pension costs	750	822	871
	<b>34,212</b>	<b>31,548</b>	<b>34,181</b>

	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<b>Number</b>	<b>Number</b>	<b>Number</b>
<b>Average number of persons employed (including directors during the year by activity)</b>			
Production	1,235	1,036	1,199
Administration	111	130	127
	<b>1,346</b>	<b>1,166</b>	<b>1,326</b>

	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Directors' emoluments and Key management compensation</b>			
Aggregate emoluments	841	636	643
Company contribution to money purchase pension scheme	128	88	48
Pensions for former director	85	88	88
	<b>1,054</b>	<b>812</b>	<b>779</b>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £336,000 (2015: £260,000, 2014: £359,000), and company pension contributions of £18,000 (2015: £50,000, 2014: £47,000) were made to a money purchase scheme on his behalf.

The Group has an ongoing annual financial commitment of approximately £88,000 (2015: £88,000, 2014: £85,000), in respect of pension payments to a former director. The amount is subject to annual inflationary increases and an appropriate provision for this commitment has been made in these accounts.

Retirement benefits are accruing under money purchase schemes for 2 directors (2015: 2, 2014: 2).

## 8. Finance income and costs

	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Finance income</b>			
Other interest income	12	—	—
Finance income	12	—	—
<b>Finance costs</b>			
Bank borrowings	(1,106)	(893)	(803)
Interest payable related parties	(123)	(185)	(167)
Fair value movement on derivative liability	—	—	(770)
Other interest expense	(31)	(23)	—
Finance costs	(1,260)	(1,101)	(1,740)
<b>Finance costs – net</b>	<b>(1,248)</b>	<b>(1,101)</b>	<b>(1,740)</b>

## 9. Income tax expense

	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Current income tax</b>			
Current tax on profits for the year	(30)	623	723
Adjustments to tax in respect of previous years	—	(421)	29
Total current tax	(30)	202	761
<b>Deferred income tax</b>			
Origination and reversal of temporary differences	(629)	74	(280)
Adjustments to prior year tax provision	155	322	(41)
Total deferred tax	(474)	396	(321)
<b>Income tax (credit)/expense</b>	<b>(504)</b>	<b>598</b>	<b>440</b>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the standard rate of UK Corporation Tax of 20% (2015: 20.25%, 2014: 21.49%) applied to profits of the consolidated entities as follows:

	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>(Loss)/profit before income tax</b>	<b>(2,962)</b>	<b>2,912</b>	<b>1,693</b>
Tax calculated at the standard rate of UK Corporation Tax 20% (2015: 20.25%, 2014: 21.49%)	(637)	590	339
Expenses not deductible for tax purposes	104	37	107
Adjustments to tax in respect of previous years	(13)	(80)	(6)
Other	42	51	—
<b>Income tax (credit)/expense</b>	<b>(504)</b>	<b>598</b>	<b>440</b>

## 10. Property, plant and equipment

	Land and buildings (including leasehold improvements) £'000	Plant and machinery £'000	Fixtures and fittings £'000	Total £'000
<b>Cost</b>				
At 1 January 2014	16,744	55,885	1,779	74,408
Additions	—	1,283	79	1,362
Disposals	(400)	(240)	(196)	(836)
At 31 December 2014	16,344	56,928	1,662	74,934
<b>Accumulated depreciation</b>				
At 1 January 2014	4,805	42,365	1,191	48,361
Charge for the year	469	3,816	204	4,489
Impairment	—	1,017	—	1,017
Disposals	(400)	(241)	(159)	(800)
At 31 December 2014	4,874	46,957	1,236	53,067
<b>Net book amount</b>				
At 31 December 2013	11,939	13,520	588	26,047
At 31 December 2014	11,470	9,971	426	21,867
<b>Cost</b>				
At 1 January 2015	16,344	56,928	1,662	74,934
Additions	34	2,140	522	2,696
Disposals	—	(190)	(156)	(346)
At 31 December 2015	16,378	58,878	2,028	77,284
<b>Accumulated depreciation</b>				
At 1 January 2015	4,874	46,957	1,236	53,067
Charge for the year	442	2,720	436	3,598
Disposals	—	(43)	(152)	(195)
At 31 December 2015	5,316	49,634	1,520	56,470//
<b>Net book amount</b>				
At 31 December 2015	11,062	9,244	508	20,814
<b>Cost</b>				
At 1 January 2016	16,378	58,878	2,028	77,284
Additions	134	3,564	—	3,698
Disposals	—	(1,010)	(341)	(1,351)
At 31 December 2016	16,512	61,432	1,687	79,631
<b>Accumulated depreciation</b>				
At 1 January 2016	5,316	49,634	1,520	56,470
Charge for the year	442	2,815	128	3,385
Disposals	—	(821)	(189)	(1,010)
At 31 December 2016	5,758	51,628	1,459	58,845
<b>Net book amount</b>				
At 31 December 2016	10,754	9,804	228	20,786

The asset impairment write down in 2014 related to a withdrawal from Ready Meals production.

The land and building net book value comprises:

	2014 £'000	2015 £'000	2016 £'000
Freehold	8,087	8,010	7,791
Long leasehold	3,383	3,052	2,963
Net book amount	11,470	11,062	10,754

At 31 December 2016 the net carrying amount of leased plant and machinery was £nil (2015: £819,000 and 2014: £1,043,000).

Depreciation and impairment charges are included within administrative expenses in the income statement.

## 11. Intangible assets

	Goodwill £'000	Other intangible assets £'000	Development costs £'000	Total £'000
<b>Cost</b>				
At 1 January 2014	40,537	2,721	535	43,793
Additions	—	217	—	217
At 31 December 2014	40,537	2,938	535	44,010
<b>Accumulated amortisation</b>				
At 1 January 2014	6,751	2,617	535	9,903
Charge for the year	—	148	—	148
At 31 December 2014	6,751	2,765	535	10,051
<b>Net book amount</b>				
At 31 December 2013	33,786	104	—	33,890
At 31 December 2014	33,786	173	—	33,959
<b>Cost</b>				
At 1 January 2015	40,537	2,938	535	44,010
Additions	—	81	—	81
At 31 December 2015	40,537	3,019	535	44,091
<b>Accumulated amortisation</b>				
At 1 January 2015	6,751	2,765	535	10,051
Charge for the year	—	101	—	101
At 31 December 2015	6,751	2,866	535	10,152
<b>Net book amount</b>				
At 31 December 2015	33,786	153	—	33,939
<b>Cost</b>				
At 1 January 2016	40,537	3,019	535	44,091
Additions	—	142	—	142
At 31 December 2016	40,537	3,161	535	44,233
<b>Accumulated amortisation</b>				
At 1 January 2016	6,751	2,866	535	10,152
Charge for the year	—	235	—	235
At 31 December 2016	6,751	3,101	535	10,387
<b>Net book amount</b>				
At 31 December 2016	33,786	60	—	33,846

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

The net book amount of goodwill relates to the acquisition in 2004 of the chilled division, the cash generating unit (CGU). Other CGUs include the coated and frozen divisions. An impairment review of goodwill and other assets has been carried out in accordance with IAS 36, 'Impairment of assets'.

The recoverable amount of the CGU is determined on value-in-use calculations. These calculations use post-tax cash flow projections covering a five year period plus a terminal year which uses a long term growth rate of 1%. The revenue growth rate is representative of the average growth rate achieved by the Group in recent years. The rate used to discount the future cash flows is the Group's internal hurdle rate for capital projects. This approximates to applying a pre-tax discount rate to pre-tax cash flows. The key assumptions on which management has based its cash flow projections comprise:

<b>Chilled division</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Future cash flow discount rate	7%	7%	7%
Revenue annual growth (range)	-6.8% - 3.2%	-3.2% - 3.3%	2.1% - 13.5%
Operating margin (range)	3.7% - 4.7%	4.5% - 5.3%	3.3% - 4.1%

## 12. Investments

	<b>2014</b> <b>£'000</b>	<b>2015</b> <b>£'000</b>	<b>2016</b> <b>£'000</b>
Participating interests	75	75	75
Other investments other than loans	9	9	9
<b>At the beginning and end of the year</b>	<b>84</b>	<b>84</b>	<b>84</b>

The subsidiary undertakings of the Group are:

<b>Subsidiary undertakings</b>	<b>Registered address</b>	<b>Country</b>	<b>Share class</b>	<b>(%) Proportion of ordinary shares held by</b>	
				<b>Parent</b>	<b>Group</b>
Coldwater Seafood UK Limited	Estate Road No 2, South Humberside Industrial Estate, Grimsby DN31 2TG	UK	£1 Ordinary	100	—
Seachill Limited		UK	£1 Ordinary	100	—
Icelandic UK Limited		UK	£1 Ordinary	—	100

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

The participating interest of the Group is:

<b>Participating interest</b>	<b>Registered address</b>	<b>Country</b>	<b>Share class</b>	<b>(%) Proportion of ordinary shares held by</b>	
				<b>Parent</b>	<b>Group</b>
Icelandic Holdings Limited	Laforey Road, Great Grimsby Business Park, Grimsby DN37 9TG	UK	£1 Ordinary	25	—

### 13. Inventories

	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Raw materials and consumables	12,833	15,138	16,413
Work in progress	1,548	1,312	1,354
Finished goods and goods for resale	10,945	7,637	6,310
	<u>25,326</u>	<u>24,087</u>	<u>24,077</u>

The cost of inventories recognised as an expense and included in cost of sales amounted to £232,429,000 (2015: £214,881,000, 2014: £227,332,000). The Group charged £1,925,000 in respect of inventory write-downs (2015: £1,222,000, 2014: £2,346,000). The amount charged has been included in cost of sales in the income statement.

### 14. Trade and other receivables

	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Trade receivables	18,356	20,186	12,370
Less: provision for impairment of trade receivables	(310)	(226)	(279)
Trade receivables – net	18,046	19,960	12,091
Amounts owed by related parties (see note 22)	152	143	—
Other receivables	1,314	1,317	610
Prepayments	969	827	879
	<u>20,481</u>	<u>22,247</u>	<u>13,580</u>

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

	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
UK Pound	20,330	22,104	8,153
Euro	151	143	—
US dollar	—	—	5,427
	<u>20,481</u>	<u>22,247</u>	<u>13,580</u>

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

Trade receivables impaired and the amount of the impairment provision was £279,000 (2015: £226,000, 2014: £310,000). The individually impaired receivables mainly relate to invoices which are in dispute. It was assessed that a portion of the receivables is expected to be recovered. The other classes within trade and other receivables do not contain impaired assets. Trade receivables and financial assets that are past due, being over 30 days old, or impaired are fully provided for. There were no other trade receivables which were overdue.

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

	2014 £'000	2015 £'000	2016 £'000
At the beginning of the year	276	310	226
Provision for receivables impairment	34	(68)	53
Receivables written off during the year as uncollectable	—	(16)	—
<b>At the end of year</b>	<b>310</b>	<b>226</b>	<b>279</b>

#### 15. Cash and cash equivalents

	2014 £'000	2015 £'000	2016 £'000
Cash at bank and on hand	6,830	6,832	8,771

#### 16. Borrowings

	2014 £'000	2015 £'000	2016 £'000
<b>Current</b>			
Bank borrowings	3,659	2,520	—
	<u>3,659</u>	<u>2,520</u>	<u>—</u>
<b>Non-current</b>			
Bank borrowings	19,950	17,430	10,000
	<u>19,950</u>	<u>17,430</u>	<u>10,000</u>
<b>Total borrowings</b>	<b>23,609</b>	<b>19,950</b>	<b>10,000</b>

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

The carrying amounts of the Group's borrowings are denominated in UK Pounds.

In December 2016 the Company fully settled its existing loan and exited its invoice discounting facility which were replaced with a £10m revolving credit facility secured by a fixed and floating charge over the tangible and intangible assets and undertakings of the company and its subsidiaries with the exception of the debt book of the Company's major customer. The revolving credit facility is repayable in 2020. The interest rate margin on the revolving credit facility is tiered dependent upon the leverage of the Company which in 2016 was 1.65% per annum above LIBOR.

As at 31 December 2015 a syndicated loan lending facility had outstanding amounts of £19,950,000 (2014: £22,470,000), repayable by the way of escalating instalments over a period ending 24<sup>th</sup> October 2018. The loan was secured by a fixed and floating charge over all the tangible and intangible assets and undertakings of the company and its subsidiaries, including goodwill and intellectual property with the exception of the invoice financing agreement (see other loans). The interest rate margin on the syndicated lending facility was 3.35% (2014: 3.35%) per annum above LIBOR. This loan was fully repaid in December 2016. As at 31 December 2015, invoicing financing agreements in place were £nil (2014: £1,139,000) which carried an interest charge of 2.25% above base rate.

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

## 17. Trade and other payables

	2014 £'000	2015 £'000	2016 £'000
<b>Current</b>			
Trade payables	25,733	27,495	29,423
Amounts owed to related parties (note 22)	2,526	832	708
Social security and other taxes	745	978	599
Accruals and deferred income	4,801	5,519	8,033
	<u>33,805</u>	<u>34,824</u>	<u>39,533</u>
<b>Non-current</b>			
Amounts owed to related parties (note 22)	<u>5,873</u>	<u>4,992</u>	<u>—</u>

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

The provision for £1.682k relates to costs not yet realised relating to the business reorganisation commenced in 2016. The provision covers the costs of redundant employees who have not yet left the business and costs relating to the closure of one of the Company's operating sites. The provision covers holding costs for the affected site to the end of 2018.

It is expected that the provision will be realised during 2017, with the exception of the holding costs relating to 2018. The provision assumes the sale of the affected site will take place by the end of 2018. Any delays on the sale will result in additional costs of circa £0.3m per annum.

## 18. Deferred income tax

	Accelerated capital allowances £'000	Other timing differences £'000	Total £'000
At 1 January 2014	(469)	229	(240)
Income statement credit	392	82	474
At 31 December 2014	(77)	311	234
Income statement credit	(200)	(196)	(396)
At 31 December 2015	(277)	115	(162)
Income statement credit	106	215	321
At 31 December 2016	(171)	330	159

The following is the reconciliation of the deferred tax balances in the balance sheet:

	2014 £'000	2015 £'000	2016 £'000
Deferred tax liabilities	(77)	(277)	(171)
Deferred tax assets	311	115	330
	<u>234</u>	<u>(162)</u>	<u>159</u>

Other timing differences principally relate to provisions and tax losses. The deferred income tax liability is not expected to reverse within 12 months. The deferred income tax asset above is not expected to reverse within 12 months.

## 19. Ordinary shares

	Number of shares (thousands)	2014 £'000	2015 £'000	2016 £'000
<b>Issued and fully paid ordinary shares of £1 each</b>				
At 1 January 2016 and <b>31 December 2016</b>	25,012	25,012	25,012	25,012

All ordinary shares of £1 each have equal rights in respect of voting, receipt of dividends and repayment of capital.

## 20. Cash generated from operations

	2014 £'000	2015 £'000	2016 £'000
(Loss)/profit before income tax	(2,962)	2,912	1,693
Finance costs – net	1,248	1,101	1,740
Operating (loss)/profit	(1,714)	4,013	3,433
Adjustments for non-cash items:			
Depreciation of property, plant and equipment	4,489	3,598	3,385
Impairment of property, plant and equipment	1,017	—	—
Amortisation of intangible assets	148	101	235
Profit on disposal of non-current assets	(21)	(58)	(22)
Changes in working capital:			
Inventories	1,351	1,239	10
Trade and other receivables	8,376	(1,917)	7,806
Prepaid expenses	128	142	(52)
Trade and other payables	(10,290)	1,995	2,319
Accrued expenses	(331)	718	2,514
Amounts owed with Group undertakings	1,209	(2,566)	(4,973)
Provisions	(66)	—	1,682
Cash generated from operations	<u>4,296</u>	<u>7,265</u>	<u>16,337</u>

## 21. Commitments

### (a) Capital commitments

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

	2014 £'000	2015 £'000	2016 £'000
Property, plant and equipment – production equipment	<u>372</u>	<u>1,544</u>	<u>1,833</u>

### (b) Operating lease commitments

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

	2014 £'000	2015 £'000	2016 £'000
No later than one year	272	536	573
Later than one year and no later than five years	402	1,143	1,019
Later than five years expiring 2022 to 2105	—	4,742	4,698
	<u>674</u>	<u>6,421</u>	<u>6,290</u>

## 22. Related party transactions and ultimate controlling party

The Company is a subsidiary undertaking of Gadus BV which is the immediate parent company incorporated in The Netherlands. The ultimate controlling party is Icelandic Group ehf and its consolidated financial statements may be obtained from Borgartun 27, 105 Reykjavik, Iceland.

The companies noted below are all deemed to be related parties by way of the same ultimate parent company.

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

	Sales			Purchases		
	2014 £'000	2015 £'000	2016 £'000	2014 £'000	2015 £'000	2016 £'000
Icelandic Group ehf	—	—	—	94	2	—
Gadus BV	560	416	393	10	4	84
Icelandic Iberica SA	47	29	2	—	—	—
Icelandic China Trading Co Ltd	—	—	—	182	238	—
Icelandic Norway AB	—	1	—	4,566	1,126	1,315
Icelandic Ny-Fiskur hf	1	—	—	515	525	420
Icelandic Japan KK	31	—	—	—	—	—

The Group made the following additional payments during the year to Icelandic Group ehf:

	2014 £'000	2015 £'000	2016 £'000
Commission	110	—	—
Interest	123	185	167
Management and other charges	957	806	928

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

	Owed from related parties			Owed to related parties		
	2014 £'000	2015 £'000	2016 £'000	2014 £'000	2015 £'000	2016 £'000
Icelandic Group ehf	—	—	—	1,682	160	187
Gadus BV	149	139	—	3	—	1
Icelandic Iberica SA	2	4	—	—	—	—
Icelandic Holdings Ltd	—	—	—	300	300	300
Icelandic China Trading Co Ltd	—	—	—	17	17	—
Icelandic Norway AB	—	—	—	8	69	—
Icelandic Acquisition Ltd	—	—	—	251	178	220
Icelandic Ny-Fiskur hf	1	—	—	265	108	—
Total – current	152	143	—	2,526	832	708
Icelandic Group ehf – non-current	—	—	—	5,873	4,992	—

Amounts shown within current liabilities owed to related parties are repayable on demand.

Details of key management compensation are given in note 7.

### 23. Financial instruments by category

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

	<b>Loans and receivables</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Assets as per balance sheet</b>			
Trade and other receivables	19,512	21,420	12,701
Cash and cash equivalents	6,830	6,832	8,771
	<u>26,342</u>	<u>28,252</u>	<u>21,472</u>
	<b>Other financial liabilities at amortised cost</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Liabilities as per balance sheet</b>			
Trade and other payables	38,933	38,838	38,164
Borrowings	23,609	19,950	10,000
<b>Financial Liabilities at fair value through profit &amp; loss</b>			
Derivative financial liability	—	—	770
	<u>62,542</u>	<u>58,788</u>	<u>48,934</u>

### 24. Transition to IFRS

This is the first financial year for which the Company has presented financial information complying with IFRS. The last financial statements under FRS 101 were for the financial year ended 31 December 2013. The Company's date of transition to IFRS is 1 January 2014. The transition to IFRS has no effect on the financial position or performance of the Group.

### 25 Subsequent events

Other than as set out below, there have been no events subsequent to the period end which are considered adjusting events giving rise to a change in the historical financial information.

On 17th August 2017, the Company sold its Deli site in Grimsby for consideration before fees of £1.430 million. The Net book value of the land and buildings associated with this site at the date of sale was £1.273 million.

On 4th August 2017, the Company sold part of its former Cavaghan & Gray site in Grimsby for consideration before fees of £0.625 million. The Net Book Value of the land and building associated with this site at the date of sale was £0.294 million.

On 18 October 2017, the group entered into a purchase agreement with Hilton Food Group plc for a wholly owned subsidiary of Hilton Food Group plc to acquire 100% of the share capital of the company for £80.8 million.

## **PART IV**

### **SECTION A**

#### **UNAUDITED PRO FORMA STATEMENT OF NET ASSETS**

Set out below is an unaudited *pro forma* statement of net assets of the Hilton Group as at 16 July 2017. It has been prepared on the basis set out in the notes below to illustrate the effect of the Acquisition on the net assets of the Hilton Group had the Acquisition occurred on 16 July 2017. It has been prepared for illustrative purposes only. Because of its nature, the *pro forma* statement addresses a hypothetical situation and, therefore, does not represent the Enlarged Group's actual financial position or results.

The unaudited *pro forma* statement of net assets of the Hilton Group does not constitute financial statements within the meaning of Section 434 of the Act. Shareholders should read the whole of this Circular and not rely solely on the summarised financial information contained in this Part IV.

The accountants' report on the unaudited *pro forma* statement of net assets is set out in Section B of this Part IV.

## Unaudited *pro forma* statement of net assets

	Adjustments					<i>Pro forma Total £'000</i>
	Hilton Group as at 16 July 2017 £'000	Icelandic Group UK Limited as at 31 December 2016 £'000	Acquisition accounting £'000	Debt financing £'000	Placing £'000	
	(Note 1)	(Note 2)	(Note 3)	(Note 4)	(Note 5)	
<b>Non-current assets</b>						
Property, plant and equipment	65,378	20,786	—	—	—	86,164
Intangible assets	8,348	33,846	31,657	—	—	73,851
Investments	9,827	84	—	—	—	9,911
Other non-current receivables	1,019	330	—	—	—	1,349
	<b>84,572</b>	<b>55,046</b>	<b>31,657</b>	<b>—</b>	<b>—</b>	<b>171,275</b>
<b>Current assets</b>						
Inventories	23,754	24,077	—	—	—	47,831
Trade and other receivables	121,627	13,580	—	—	—	135,207
Restricted cash	1,567	—	—	—	—	1,567
Cash and cash equivalents	60,376	8,771	(82,552)	33,428	53,760	73,783
	<b>207,324</b>	<b>46,428</b>	<b>(82,552)</b>	<b>33,428</b>	<b>53,760</b>	<b>258,388</b>
<b>Total assets</b>	<b>291,896</b>	<b>101,474</b>	<b>(50,895)</b>	<b>33,428</b>	<b>53,760</b>	<b>429,663</b>
<b>Non-current liabilities</b>						
Borrowings	10,062	10,000	—	31,728	—	51,790
Trade and other payables	—	—	—	—	—	—
Deferred income tax liability	1,549	171	—	—	—	1,720
Provisions for other liabilities and charges	—	1,963	—	—	—	1,963
	<b>11,611</b>	<b>12,134</b>	<b>—</b>	<b>31,728</b>	<b>—</b>	<b>55,473</b>
<b>Current liabilities</b>						
Borrowings	11,432	—	—	1,700	—	13,132
Trade and other payables	166,712	39,533	—	—	—	206,245
Current income tax liabilities	—	664	—	—	—	664
	<b>178,144</b>	<b>40,197</b>	<b>—</b>	<b>1,700</b>	<b>—</b>	<b>220,041</b>
<b>Total liabilities</b>	<b>189,755</b>	<b>52,377</b>	<b>—</b>	<b>33,428</b>	<b>—</b>	<b>275,514</b>
<b>Net assets</b>	<b>102,141</b>	<b>49,143</b>	<b>(50,895)</b>	<b>—</b>	<b>53,760</b>	<b>154,149</b>

### Notes:

1. The net assets of the Hilton Group as at 16 July 2017 have been extracted without material adjustment from the unaudited interim financial statements of the Hilton Group for the 28 weeks to 16 July 2017, as incorporated by reference in Part VI of this document.
2. The net assets of Icelandic Group UK Limited as at 31 December 2016 have been extracted without material adjustment from the Historical Financial Information of Icelandic Group UK Limited for the three years ended 31 December 2016, set out in Part III of this document.
3. The *pro forma* statement of net assets has been prepared on the basis that the acquisition of Icelandic Group UK Limited will be accounted for using the acquisition accounting method. The excess of consideration over the book value of assets acquired has been reflected as goodwill. No account has been taken of any fair value adjustments which may arise on the acquisition.

The goodwill arising on this basis has been calculated as follows:

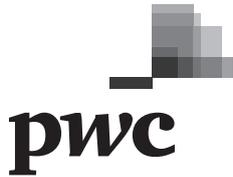
	<b>£'000</b>
Cash consideration	80,800
Less: net assets acquired of Icelandic Group UK Limited	(49,143)
<b>Pro forma goodwill adjustment</b>	<b>31,657</b>

The cash consideration of £80.8 million and related estimated transaction costs of £1.75 million, totalling £82.55 million, will be financed by the Company's existing cash, new debt facilities totalling of £34.0 million (Note 4) and the proceeds of the Placing (Note 5).

4. As set out in Part I of this document the Company entered into new banking facilities totalling £34.0 million to fund the proposed Acquisition, future capital investment and the Group's working capital requirements. This adjustment illustrates the impact of an assumed drawdown of £34.0 million for these purposes. Estimated costs of £0.6 million associated with the Debt Financing have been capitalised against non-current borrowings.
5. Adjustment to reflect the proceeds of the Placing by the Company of £55.9 million, net of associated costs of £2.1 million.
6. The unaudited *pro forma* financial information does not take into account the trading activity or other transactions of the Hilton Group for the period since 16 July 2017 or of Icelandic Group UK Limited for the period since 31 December 2016.

## SECTION B

### ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION



The Directors  
Hilton Food Group plc  
2-8 The Interchange  
Latham Road  
Huntingdon  
Cambridgeshire  
PE29 6YE

Numis Securities Limited  
The London Stock Exchange Building  
10 Paternoster Square  
London  
EC4M 7LT

18 October 2017

Dear Sirs

#### **Hilton Food Group plc (the “Company”)**

We report on the unaudited *pro forma* financial information (the “**Pro Forma Financial Information**”) set out in Section A of this Part IV of the Company’s circular dated 18 October 2017 (the “**Circular**”) which has been prepared on the basis described in the notes to the Pro Forma Financial Information, for illustrative purposes only, to provide information about how the proposed acquisition of Icelandic Group UK Limited might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the unaudited interim financial statements for the period ended 16 July 2017. This report is required by item 13.3.3R of the Listing Rules of the United Kingdom Listing Authority (the “**Listing Rules**”) and is given for the purpose of complying with that item and for no other purpose.

#### **Responsibilities**

It is the responsibility of the directors of the Company to prepare the Pro Forma Financial Information in accordance with item 13.3.3R of the Listing Rules.

It is our responsibility to form an opinion, as required by item 13.3.3R of the Listing Rules as to the proper compilation of the Pro Forma Financial Information and to report our opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to shareholders of the Company as a result of the inclusion of

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this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 13.4.1R(6) of the Listing Rules, consenting to its inclusion in the Circular.

**Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

**Opinion**

In our opinion:

- a) the Pro Forma Financial Information has been properly compiled on the basis stated; and
- b) such basis is consistent with the accounting policies of the Company.

Yours faithfully

PricewaterhouseCoopers LLP  
Chartered Accountants

## PART V

### SUMMARY OF THE PRINCIPAL TERMS OF THE ACQUISITION

Summarised below are the principal terms and conditions of the Acquisition:

#### 1. Background

The Sale and Purchase Agreement is made between the Buyer, the Company (as the Buyer's guarantor), the Seller and the Seller Guarantor and provides for the sale of the entire issued share capital of the Target to the Company.

The Seller Guarantor guarantees to the Buyer and the Company (as buyer guarantor) guarantees to the Seller the due and punctual performance, observance and discharge by the Seller or Buyer (as applicable) of all the relevant guaranteed obligations if and when they become performable or due under the Sale and Purchase Agreement.

#### 2. Consideration

The Sale and Purchase Agreement provides for the sale and purchase of the Target by the Buyer for a total consideration of £80.8 million in cash at Completion.

The Consideration shall be reduced by an amount equal to the sum of any amounts constituting leakage under the terms of the Sale and Purchase Agreement.

#### 3. Conditions

Completion of the Acquisition is conditional on Shareholders passing the Resolutions at the General Meeting.

#### 4. Conduct of business prior to Completion

The Seller has given certain covenants to the Company in relation to the conduct of the Target Group's business between the date of the Sale and Purchase Agreement and Completion. The Seller has given certain covenants to the Company in relation to the conduct of the Target Group's business between the date of the Sale and Purchase Agreement and Completion. A material breach of such covenants, which has a material adverse effect on the business, operations or condition of the Target (and its subsidiaries) resulting in costs to the Target of £7,500,000 or more, allows the Buyer to terminate the Sale and Purchase Agreement.

#### 5. Warranties

The Seller has given certain warranties to the Company which the Directors consider are typical for transactions of this kind including without limitation, warranties in relation to the power and authority to enter into the Sale and Purchase Agreement, the commercial arrangements between the Company and its suppliers and customers and the status of the agency staff and employees of the Company.

Subject to certain exceptions, the maximum liability of the Seller under these warranties is £400,000 (being 0.5 per cent. of the Consideration and no warranty claim may be made until the aggregate of all substantiated warranty claims exceeds £400,000 (in which event the Seller would be liable for the entire amount and not only the excess). Warranty claims of £80,000 or less may not be made. All warranty claims must be notified within 12 months from Completion except for claims relating to tax and/or fundamental warranties, which must be notified on or before 31 December 2019. The Sale and Purchase Agreement contains a number of other limitations on warranty claims.

The Company has taken out a warranty and indemnity insurance policy from Hunter George & Partners Limited which provides coverage of £10 million, subject to market standard limitations and exclusions. The agreed excess is £350,000 dropping to £50,000 after 24 months. Claims under the policy of less than £30,000 may not be made except for specified fundamental warranties where this excess does not apply.

In addition, the warranties given on execution of the Sale and Purchase Agreement are deemed to be repeated by the Seller to the Company on the date of Completion. The Seller may disclose against the warranties on Completion in respect of any new matters arising after the date of the Sale and Purchase Agreement.

If at any time between exchange and Completion there is a breach of a warranty by the Seller that has a material adverse effect on the business, operations or condition of the Target (and its subsidiaries), which results in costs to the Target of £7.5 million or more, the Buyer may (without prejudice to any other rights it may have in relation to the breach) terminate the Sale and Purchase Agreement.

The Company is giving warranties as to its power and authority to enter into the Sale and Purchase Agreement and as to the validity of the binding obligations created by the transaction documents.

## **6. Indemnities**

The Seller is giving certain indemnities to the Seller relating to, among other things, the employment status of the Target's agency staff and the Target's compliance with certain employment and immigration laws and regulations and in connection with a historic defined benefit pension scheme. The maximum liability of the Seller under these indemnities is £750,000.

## PART VI

### ADDITIONAL INFORMATION

#### 1 Responsibility

The Company and the Directors, whose names appear in paragraph 3 below, accept responsibility for the information contained in this Circular. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

#### 2 The Company

The Company was incorporated in England on 16 March 2007 under the name Law 2461 Limited with registered number 06165540 as a private company under the Companies Act 1985. The Company was subsequently re-registered as a public company and changed its name to Hilton Food Group plc on 17 April 2007. The Company is a limited liability public company with its registered office and principal place of business at 2-8 The Interchange, Latham Road, Huntingdon, Cambridgeshire PE29 6YE. The telephone number of the Company's registered office is 01480 387214.

The principal legislation under which the Company operates is the Companies Act 2006 and regulations made thereunder.

The issued and fully paid share capital of the Company as at 17 October 2017 is 73,996,661 Ordinary Shares of £0.10 each. All Ordinary Shares have the same voting rights.

#### 3 Directors

The Directors and their principal functions are as follows:

Colin Smith OBE (*Non-Executive Chairman*)

Robert Watson OBE (*Chief Executive*)

Nigel Majewski (*Chief Financial Officer*)

Philip Heffer (*Chief Operating Officer*)

John Worby (*Non-Executive Director*)

Christine Cross (*Non-Executive Director*)

#### 4 Directors' shareholdings and options

##### 4.1 Directors' holdings

As at 17 October 2017 (being the latest practicable date prior to the publication of this Circular), the Directors held the following interests in Ordinary Shares:

Director	Number of Ordinary Shares	Percentage of Ordinary Shares (%)
Robert Watson OBE	2,726,805	3.69%
Philip Heffer	4,181,030	5.65%
Nigel Majewski	93,715	0.13%
Colin Smith OBE	50,000	0.07%
John Worby	7,000	0.01%
Christine Cross	5,000	0.01%

#### 4.2 Directors' share options

As at 17 October 2017 (being the last practicable date prior to the publication of this Circular), the following options to acquire Ordinary Shares had been granted and remained outstanding under the Company's sharesave and unapproved share option schemes:

Director	Number of Ordinary Shares over which options granted	Exercise Price (£)	Earliest exercise date	Latest exercise date
Robert Watson OBE	2,142	4.2000	01.06.18	01.12.18
	1,394	6.4550	01.06.20	01.12.20
	86,359	nil	20.04.18	20.04.25
	74,055	nil	25.04.19	25.04.26
	65,237	nil	24.04.20	24.04.27
Philip Heffer	2,142	4.2000	01.06.18	01.12.18
	1,394	6.4550	01.06.20	01.12.20
	34,840	nil	28.04.17	28.04.24
	69,088	nil	20.04.18	20.04.25
	57,090	nil	25.04.19	25.04.26
Nigel Majewski	50,292	nil	24.04.20	24.04.27
	2,142	4.2000	01.06.18	01.12.18
	1,394	6.4550	01.06.20	01.12.20
	34,840	nil	28.04.17	28.04.24
	69,088	nil	20.04.18	20.04.25
	57,090	nil	25.04.19	25.04.26
	48,920	nil	24.04.20	24.04.27

#### 4.3 Directors' service agreements and appointment letters

No existing or proposed service contract between any Director and the Company has been or will be varied as a consequence of the Acquisition. The existing service contracts are as set out in the table below:

Director	Date of contract of employment, service contract or appointment letter	Salary / fees per annum	Notice period
Colin Smith OBE	25 May 2016	£110,000	6 months*
Robert Watson OBE	24 April 2007	£468,399	12 months
Nigel Majewski	24 April 2007	£351,245	12 months
Philip Heffer	24 April 2007	£361,093	12 months
John Worby	22 March 2016	£55,000	6 months**
Christine Cross	22 March 2016	£55,000	6 months**

\* 6 months' notice period following initial term of 3 years, which commenced on 25 May 2016 and which ends on 24 May 2019

\*\* 6 months' notice period following initial term of 3 years, which commenced on 22 March 2016 and which ends on 21 March 2019

In addition to their salaries, the executive Directors also receive the following benefits:

- (a) company car, including fuel and maintenance;
  - (b) private healthcare;
  - (c) pension up to 15% of basic salary;
  - (d) annual bonus up to 125% of basic salary; and
  - (e) long term incentive up to 100% of basic salary;
- the costs of which are borne by the Company.

#### 4.4 *Directors' interests in transactions*

No Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or which is or was significant to the business of the Company or any of its subsidiaries during the current or immediately preceding financial year, or which, having been in effect during an earlier financial year, remains in any respect outstanding or unperformed.

### 5 **Details of key individuals of the Target**

The following individuals are deemed by the Company to be key to the operations of the business of the Target:

<b>Name</b>	<b>Position</b>
Simon Smith	CEO
Andy Rutherford	Finance Director
Charlie Boardman	Procurement Director
Glen Matthews	Operations Director

There are no proposed new directors of the Company as a result of the Acquisition.

### 6 **Major interests in shares**

As at 17 October 2017 (being the latest practicable date prior to the publication of this Circular), the Directors had been notified that the following persons held voting rights representing 3 per cent. or more of the voting rights in the Company:

<b>Shareholder</b>	<b>Number of Ordinary Shares</b>	<b>Percentage of Ordinary Shares (%)</b>
Fidelity Management & Research	7,111,320	9.61%
Standard Life Aberdeen	6,750,090	9.12%
AXA Investment Managers	4,080,000	5.51%
Santander Asset Management	3,174,071	4.29%
Canaccord Genuity	3,039,275	4.11%
Montanaro Asset Management	2,220,000	3.00%

All of the percentages specified in this paragraph and in paragraph 4 above are calculated on the basis of the number of Ordinary Shares in issue (excluding Ordinary Shares held in treasury) on 17 October 2017 (being 73,996,661 Ordinary Shares).

### 7 **Working capital**

The Company is of the opinion that, following the Acquisition, taking into account bank and other facilities and the net proceeds of the Placing, the Enlarged Group has sufficient working capital for its present requirements and for at least the next 12 months from the date of publication of this Circular.

### 8 **Material contracts**

#### 8.1 *Hilton Group*

The following is a summary of each contract, not being contracts entered into in the ordinary course of business, that have been entered into by the Company or any other member of the Hilton Group during the two years immediately preceding the date of this Circular which is, or may be, material to the Company or the Hilton Group, or which contains any provision under which any member of the Hilton Group has any obligation or entitlement which is material to the Hilton Group as at the date of this Circular:

(a) **The Sale and Purchase Agreement**

The Sale and Purchase Agreement dated 18 October 2017 between the Company, the Seller and the Seller Guarantor, further details of which are contained in Part V of this Circular.

(b) Facility Agreements

(i) First Facilities Agreement:

*Overview*

An English law governed secured term facilities agreement dated 18 October 2017 and made between Hilton Group as company (the “**Company**”) (1), Hilton Foods Limited and Hilton Foods Australia Pty Limited as original borrowers (the “**Borrowers**”) (2), the Company and the subsidiaries of the Company as listed therein as original guarantors\* (the “**Guarantors**”) (3), The Royal Bank of Scotland plc as bookrunner and mandated lead arranger together with HSBC Bank plc and Barclays Bank plc as mandated lead arrangers (4), the financial institutions as listed therein as lenders (5), HSBC Bank plc as agent (6) and HSBC Corporate Trustee Company (UK) Limited as security agent (7) (the “**First Facilities Agreement**”). Pursuant to the First Facilities Agreement, the term Facilities D and E under and as defined in an existing Northern Irish law governed facility agreement originally dated 27 January 2017 between the Company as parent (1), HFG Sverige AB, Hilton Foods Limited, Hilton Foods Australia Pty Limited and Hilton Foods UK Limited as borrowers (2), the Company and the subsidiaries of the Company listed therein as guarantors (3) and Ulster Bank Limited as lender (4) (as amended from time to time) (the “**Existing Facilities Agreement**”) will be refinanced. Pursuant to the First Facilities Agreement, the following facilities will be made available to the Borrowers:

- (A) a euro term loan facility in an aggregate principal amount equal to EUR14,000,000; and
- (B) an Australian dollar term loan facility in an aggregate principal amount equal to AUD123,000,000.

Each of the facilities under the First Facilities Agreement will be secured against the assets of Hilton Foods UK Limited, Hilton Foods (Ireland) Limited and Hilton Foods Australia Pty Limited and will be guaranteed by the Guarantors.

The drawdown by the borrowers under the First Facilities Agreement is contingent upon certain customary conditions precedent being satisfied. Provided these customary conditions precedent are satisfied, the facilities are available for drawing from and including the date of the First Facilities Agreement, to and including the date which is six months from the date of the First Facilities Agreement in respect of Facility A (as defined therein) and the second anniversary of the date of the First Facilities Agreement in respect of Facility B (as defined therein) (the “**Availability Period**”). The lenders will be obliged to make utilisations available to the borrower during the Availability Period provided that: (i) no default is continuing or would result from the proposed utilisation; and (ii) all repeating representations are true in all material respects.

No borrower may re-borrow any part of a facility which is repaid.

*The terms of the First Facilities Agreement*

The First Facilities Agreement terminates on the fifth anniversary of the date of the First Facilities Agreement.

The First Facilities Agreement contains customary warranties, representations, covenants and events of default for a facility of its nature.

The First Facilities Agreement contains the following financial covenants (as described in more detail below):

- (A) an interest cover test;
- (B) a leverage (net borrowings) test; and
- (C) a tangible net worth test.

Subject to exceptions for certain permitted acquisitions and permitted joint ventures, the borrowers and the guarantors may not acquire any company, business or undertaking and may not enter into, invest in or acquire any interest in a joint venture.

The following are some of the key terms of the First Facilities Agreement:

#### *Repayment*

The loans must be repaid by the borrowers in instalments of €275,000 for Facility A and AUD 6,150,000 in respect of Facility B on the respective repayment dates for each of Facility A and Facility B (being every three months beginning on 31 March 2018 in respect of Facility A and every three months beginning on 31 December 2019 in respect of Facility B). The final payments shall be due on the termination date, being the date falling five years after the date of the First Facilities Agreement.

All outstanding loans, together with accrued interest and any other amounts accrued, shall become due and payable upon the occurrence of:

- (A) illegality (i.e. if, in any applicable jurisdiction, it becomes unlawful for any lender to perform any of its obligations as contemplated by the First Facilities Agreement or to fund or maintain its participation in any loan or it becomes unlawful for any affiliate of that lender to do so); and/or
- (B) a change of control (i.e. any person or group of persons acting in concert gains direct or indirect control of the Company).

#### *Interest and fees*

Interest will be charged on each loan and the applicable interest rate will be the aggregate percentage rate per annum of the margin and (i) in relation to Facility A, EURIBOR and (ii) in relation to Facility B, BBSW. The margin will be 1.45 per cent. per annum from the initial drawdown.

The Company agrees to pay the lenders under the First Facilities Agreement an upfront fee within five business days of the date of the First Facilities Agreement.

The Company agrees to pay the agent and security agent under the First Facilities Agreement agency and security agency fees annually in advance from the date of the First Facilities Agreement.

#### *Restrictive covenants*

The obligors are subject to a number of customary restrictive covenants, such that particular acts are prohibited unless they are expressly permitted under the First Facilities Agreement, including (among others) (in each case subject to certain exceptions):

- (A) a negative pledge whereby the obligors are not permitted to create any security;
- (B) a restriction in respect of making any disposal of assets;
- (C) a restriction on incurring financial indebtedness; and
- (D) a restriction on making acquisitions.

#### *Financial covenants*

##### *(A) Interest cover*

Interest cover in respect of any Relevant Period (being, for the last day of any accounting period, the 13 accounting periods ending on that day) shall not be less than 4.00:1. Compliance with the interest cover test is tested semi-annually.

##### *(B) Leverage*

Leverage is defined as the ratio of the group's consolidated net borrowings to consolidated EBIDTA. Compliance with the Leverage test is tested semi-annually. The maximum permissible Leverage varies, with the highest ratio being 3.50:1 and the lowest ratio being 2.50:1. The Leverage ratio for the first testing period ending on or around 31 December 2017 shall be no greater than 3.00:1 and, ultimately, from the end of the testing period ending on or around 30 June 2022 and for all subsequent testing periods, it shall be no greater than 2.50:1.

##### *(C) Tangible net worth*

Tangible net worth (being the aggregate of the amount of paid up share capital of the group (taken as a whole) plus other capital and revenue reserves of the group as a whole less the aggregate amount attributed to goodwill or any other intangible

assets of the group but not deducting any goodwill arising solely on the consolidation of the group in the accounts of any future holding company of the Group and excluding any future asset revaluations) shall not be less than a series of pre-agreed amounts being £65 million for the financial year ending on 31 December 2017, a range of £65 million to £115 million from the financial half year ending 30 June 2018 to the financial half year ending 30 June 2022 and ultimately £115 million.

(ii) Second Facilities Agreement

*Overview*

An English law governed unsecured term and revolving facilities agreement dated 18 October 2017 and entered into between the Company as company (1), Hilton Foods Limited, Hilton Foods Ltd sp. z o. o. and Hilton Foods Danmark A/S as original borrowers (2), the Guarantors (3), Royal Bank of Scotland plc as bookrunner and mandated lead arranger together with HSBC Bank plc and Barclays Bank PLC as mandated lead arrangers (4), the financial institutions listed therein as lenders (5) and HSBC Bank plc as agent (6) (the “**Second Facilities Agreement**”) pursuant to which both term and revolving credit facilities will be made available to Hilton Foods Limited, Hilton Foods Australia Pty Limited, Hilton Foods Ltd sp. z o.o. and Hilton Foods Danmark A/S for the purposes as set out below:

- (A) a sterling term loan facility made available to Hilton Foods Limited in an aggregate principal amount equal to GBP34,000,000 (“**Facility A1**”) for the purpose of:
  - (I) payment of the purchase price for the Acquisition;
  - (II) payment of any related costs for the Acquisition; and
  - (III) refinancing certain financial indebtedness of the Target Group;
- (B) a sterling term loan facility made available to Hilton Foods Limited in an aggregate principal amount equal to GBP11,000,000 (“**Facility A2**”) for the purpose of financing the capital expenditure of the Target Group;
- (C) a euro term loan facility made available to Hilton Foods Ltd sp. z o.o. in an aggregate principal amount equal to EUR 6,000,000 (“**Facility B**”) to service the relevant Long Term Supply Agreement (as defined therein);
- (D) a Polish zloty term loan facility made available to Hilton Foods Ltd sp. z o.o. in an aggregate principal amount equal to PLN 40,500,000 (“**Facility C**”) for the general corporate and working capital purposes of the group,  
(Facility A, Facility B and Facility C together the “**Term Loan Facilities**”);
- (E) a multi-currency revolving credit facility made available to Hilton Foods Limited and Hilton Foods Australia Pty Limited in an aggregate principal amount equal to GBP 33,540,000 (the “**Facility D Commitment**”) for the general corporate and working capital purposes of the group (other than prepayment of any term loan or, in the case of any utilisation of any ancillary facility, towards prepayment of any loan under Facility D);
- (F) a euro revolving credit facility made available to Hilton Foods Danmark A/S in an aggregate principal amount equal to EUR 23,600,000 (“**Facility E1**”) for, among other things, the general corporate and working capital purposes of the group (but not towards prepayment of any Term Loan or, in the case of any utilisation of any Ancillary Facility, towards prepayment of any Facility E1 Loan); and
- (G) a euro revolving credit facility made available to Hilton Foods Ltd sp. z.o.o. in an aggregate principal amount equal to EUR 5,900,000 (“**Facility E2**”) for, amongst other things, the general corporate and working capital purposes of the group (other than towards the prepayment of any term loan or, in the case of any utilisation of any ancillary facility, towards prepayment of any loan under Facility E2),  
(Facility D, Facility E1 and Facility E2 together the “**Revolving Facilities**”).

The Second Facilities Agreement allows the lenders to make all or part of Facility D, Facility E1 and Facility E2 available to Hilton Foods Limited, Hilton Foods Australia Pty Limited, Hilton Foods Danmark A/S and/or Hilton Foods Ltd sp. zo.o as ancillary facilities.

The Second Facilities Agreement also permits the establishment of four incremental facilities in four different currencies (the “**Incremental Facilities**”), in aggregate not permitted to exceed in total approximately GBP 154,200,000 (depending on the exchange rate). The Incremental Facilities under the Unsecured Facilities Agreement shall only become available for utilisation if and to the extent that any of the Lenders, following receipt of an Incremental Facility Proposal issued by the Company, notify the Company that they wish to become Incremental Facility Lenders.

The drawdown by the borrowers under the Second Facilities Agreement is contingent upon certain customary conditions precedent being satisfied. Provided these customary conditions precedent are satisfied, the facilities are available for drawing as follows:

- (A) in relation to Facility A1, from and including the date of the Second Facilities Agreement to and including the Backstop Date (as defined therein);
- (B) in relation to Facility A2, from and including the date of the Second Facilities Agreement to and including 31 December 2019;
- (C) in relation to Facility B, from and including 31 January 2018 to and including 31 March 2019;
- (D) in relation to Facility C, from and including the date of the Second Facilities Agreement to and including 30 September 2018;
- (E) in relation to the Revolving Facilities, the period from and including the date of the Second Facilities Agreement to and including the date falling one month prior to the termination date applicable to that Revolving Facility; and
- (F) in relation to any of the Incremental Facilities, the period specified in a notice relating to that particular facility,

(the “**Availability Periods**”).

The lenders under the Second Facilities Agreement will be obliged to make utilisations available to the borrowers during the relevant Availability Periods (other than in respect of Facility A1) provided that: (i) no default (or, in the case of any rollover loan, no event of default) is continuing or would result from the proposed utilisation; and (ii) all repeating representations are true in all material respects. The facilities under the Second Facilities Agreement will be guaranteed by the Guarantors.

In respect of Facility A1, the lenders under the Second Facilities Agreement will be obliged to make utilisations available to the borrowers from and including the date of the Second Facility Agreement to and including the Backstop Date (the “**Certain Funds Period**”) provided that: (i) no major default is continuing or would result from the proposed utilisation; and (ii) all major representations are true in all material respects. The major defaults and major representations include those defaults and representations and warranties which are customarily included for the purposes of drawings during the relevant Certain Funds Period.

#### *The terms of the Second Facilities Agreement*

Each of the Term Loan Facilities and Revolving Facilities terminates on the fifth anniversary of the date of the Second Facilities Agreement and each of the Incremental Facilities terminates on the date specified as such in the relevant notice.

The Second Facilities Agreement contains customary warranties, representations, covenants and events of default for a facility of its nature.

The Second Facilities Agreement contains the following financial covenants (as described in more detail below):

- (A) an interest cover test;
- (B) a leverage (net borrowings) test; and
- (C) a tangible net worth test.

Subject to exceptions for certain permitted acquisitions and permitted joint ventures, the borrowers and the guarantors may not acquire any company, business or undertaking and may not enter into, invest in or acquire any interest in a joint venture.

The following are some of the key terms of the Second Facilities Agreement:

#### *Repayment*

The loans borrowed under the Term Loan Facilities must be repaid by the borrowers in instalments of GBP850,000 in respect of Facility A1, GBP550,000 in respect of Facility A2, EUR120,000 in respect of Facility B and PLN1,012,500 in respect of Facility C on the respective repayment dates for each of Facility A1, Facility A2, Facility B and Facility C (as applicable), and the final payments shall be due on or before the termination date, being the date falling five years after the date of the Second Facilities Agreement and in the case of the Incremental Facilities in full on the date specified as such in the relevant notice.

The loans borrowed under the Revolving Facilities must be repaid on the last day of the relevant interest period.

All outstanding loans, together with accrued interest and any other amounts accrued, shall become immediately due and payable upon the occurrence of:

- (A) illegality (i.e. if, in any applicable jurisdiction, it becomes unlawful for any lender to perform any of its obligations as contemplated by this agreement or to fund or maintain its participation in any loan or it becomes unlawful for any Affiliate of a Lender to do so); or
- (B) a change of control (i.e. any person or group of persons acting in concert gains direct or indirect control of the Company).

#### *Interest and fees*

Interest will be charged on each loan and the applicable interest rate will be the aggregate percentage rate per annum of (i) the margin and (ii) LIBOR, or in relation to any loan in euro, EURIBOR, or in relation to any loan in a non-LIBOR currency, the Benchmark Rate (as defined therein) for that currency. The margin in respect of Facility A1, Facility A2, Facility B and Facility C will be 1.50 per cent. per annum and in respect of Facility D, Facility E1 and Facility E2, 1.30 per cent, from the initial drawdown. The margin in respect of an Incremental Facility will be as specified in the relevant notice.

The Company agrees to pay the lenders an upfront fee within five business days of the date of the Second Facility Agreement.

The Company agrees to pay the agent agency fees annually in advance from the date of the Second Facility Agreement.

The Company will pay a commitment fee in respect of each Facility and any Incremental Facility and an utilisation fee on the aggregate amount of all outstanding Facility D, Facility E1 and Facility E2 loans in the amount specified therein.

#### *Restrictive covenants*

The Obligors are subject to a number of customary restrictive covenants, such that particular acts are prohibited unless they are expressly permitted under the Second Facilities Agreement, including (among others) (in each case subject to certain exceptions):

- (A) a negative pledge whereby the obligors are not permitted to create any security;
- (B) a restriction in respect of making any disposal of assets;
- (C) a restriction on incurring financial indebtedness; and
- (D) a restriction on making acquisitions.

### *Financial covenants*

(A) Interest cover

Interest cover in respect of any Relevant Period (being the period of 13 accounting periods ending on or about the last day of a financial year or financial half year) shall not be less than 4.00:1. Compliance with the interest cover test is tested semi-annually.

(B) Leverage

Leverage is defined as the ratio of the group's consolidated net borrowings to consolidated EBIDTA. Compliance with the Leverage test is tested semi-annually. The maximum permissible Leverage varies, with the highest ratio being 3.50:1 and the lowest ratio being 2.50:1. The Leverage ratio for the first testing period ending on or around 31 December 2017 shall be no greater than 3.00:1 and ultimately, from the end of the testing period ending on or around 30 June 2022 and for all subsequent testing periods, it shall be no greater than 2.50:1.

(C) Tangible net worth

Tangible net worth (being the aggregate of the amount of paid up share capital plus other capital of the group (taken as a whole) and revenue reserves of the group as a whole less the aggregate amount attributed to goodwill or any other intangible assets of the group but not deducting any goodwill arising solely on the consolidation of the group in the accounts of any future holding company of the Group and excluding any future asset revaluations) for each financial year set out below, shall not be less than a series of pre-agreed amounts being £65million for the financial year ending on 31 December 2017, a range of £65 million to £115 million for the financial half year ending 30 June 2018 to 30 June 2022 and ultimately £115 million.

(iii) Amended Facilities Agreement

The Existing Facilities Agreement, which is governed by Northern Irish law, has been amended pursuant to a letter of variation dated 18 October 2017 (the "**Letter of Variation**"). The Existing Facilities Agreement as amended pursuant to the Letter of Variation shall hereinafter be referred to as the "**Amended Facilities Agreement**". Facilities B and C under (and as defined in) the Existing Facilities Agreement will continue to be available to Hilton Foods UK Limited and HFG Sverige AB respectively under the terms of the Amended Facilities Agreement. The Guarantors (as defined therein) will continue to guarantee the obligations of the Obligors (as defined therein) under the Amended Facilities Agreement. All existing security granted in favour of Ulster Bank Limited in connection with the Existing Facilities Agreement is to be released.

\*The Guarantors are:

Hilton Food Group plc  
Hilton Foods Limited  
Hilton Meats Holland Limited  
Hilton Food Group (Europe) Limited  
Hilton Foods Asia Pacific Limited  
Hilton Foods UK Limited  
Hilton Foods (Ireland) Limited  
Hilton Foods Holland BV  
Hilton Foods Australia Pty Limited  
HFG Sverige AB  
Hilton Foods Ltd sp. z .o.o.  
Hilton Foods Danmark A/S

(iv) Credit Line Agreement

On 30 September 2016, Hilton Foods Danmark A/S entered into a credit line agreement with Nordea Bank Danmark for the maximum credit amount of DDK 15,000,000.

(v) Placing Agreement

The Company entered into the Placing Agreement dated 18 October 2017 with Numis and Panmure Gordon (the “**Banks**”). Pursuant to the Placing Agreement, the Banks have, subject to the terms set out therein, agreed to use their reasonable endeavours, as agents of the Company, to procure Placees to subscribe for the Placing Shares. To the extent that they do not so procure subscribers, the Banks themselves have agreed to subscribe for the relevant Placing Shares. Accordingly, the Placing is being fully underwritten by the Banks on the terms set out in the Placing Agreement.

In consideration of the Banks’ agreement to underwrite the Placing Shares and subject to their obligations under the Placing Agreement having become unconditional, the Company shall pay to the Banks a commission agreed between the Company and the Banks. The Company shall pay (whether or not the obligations of the Banks under the Placing Agreement become unconditional or are terminated) all properly incurred costs and expenses of, or in connection with, the Placing and Admission and the arrangements contemplated by the Placing Agreement.

The obligations of the Banks under the Placing Agreement are subject to certain standard conditions being satisfied. The conditions include, amongst other things, the Circular being approved by the UKLA, the applications to the UKLA and London Stock Exchange having been made, passing of the Resolutions at the General Meeting, the warranties in the Placing Agreement being true on the date of the Placing Agreement and immediately prior to Admission, there being no material adverse change. If any of the conditions are not satisfied prior to Admission (or waived by Numis), then the Placing Agreement shall terminate, without prejudice to any liability for any prior breach of the agreement or pursuant to certain surviving provisions. For the avoidance of doubt, Admission will not proceed in the event that the conditions are not satisfied (or, where applicable, waived) or the Placing Agreement is terminated. The Placing Agreement is not capable of termination following Admission.

Numis has a customary right to terminate the Banks’ obligations under the Placing Agreement at any time up until the point of Admission including for, amongst other things: (a) breach of warranty or any term of the Placing Agreement by the Company; (b) non-satisfaction of the conditions; (c) force majeure; (d) a material adverse change, or development likely to lead to a material adverse change, in the condition of the Enlarged Group; and (d) a statement in the Circular becoming untrue or inaccurate in a material respect.

The Placing Agreement contains warranties and undertakings given by the Company which are customary for an agreement of this kind. In addition it contains customary indemnities from the Company in favour of the Banks in respect of certain liabilities connected with Admission and documentation issued to Shareholders and /or investors by or on behalf of the Company in connection with the Issue and the Acquisition.

## 8.2 Target Group

The following is a summary of each contract, not being contracts entered into in the ordinary course of business, that have been entered into by the Target or any other member of the Target Group during the two years immediately preceding the date of this Circular which is, or may be, material to the Target or the Target Group, or which contains any provision under which any member of the Target Group has any obligation or entitlement which is material to the Target Group as at the date of this Circular:

(a) *DNB Facility Agreement*

The Target is party to a revolving credit facility agreement dated 22 December 2016 made between DNB (UK) Limited as lender (“**DNB**”) and the Target as borrower (the “**RCF**”). The RCF is a committed sterling revolving credit facility in an aggregate amount equal to GBP 10,000,000 (to the extent not cancelled or reduced under the RCF) and has a termination date of 22 December 2019 (unless otherwise extended in accordance with the terms of the RCF). The facility is made available to the Target for its general corporate and working capital purposes (including the refinancing of loans made by Icelandic Group hf to the Target (for GBP 2,000,000 and EUR 2,800,000)). The Target may only draw down under the RCF if certain customary conditions precedent are satisfied. Provided these customary conditions precedent are satisfied, the RCF is available for drawing from and including the date of the

RCF, to and including the date occurring three months prior to the Termination Date. A maximum of ten loans are permitted to be outstanding at any time. Any part of the RCF which is repaid or prepaid may be re-borrowed. Each loan under the RCF shall be repaid on the last day of the relevant interest period for that loan.

The RCF is secured against the assets of the Target pursuant to a debenture dated 22 December 2016 made between the Target and DNB Bank ASA, London Branch as security agent.

The RCF contains the following financial covenants: (i) interest cover ratio, (ii) consolidated leverage ratio and (iii) equity ratio. Subject to exceptions for certain permitted acquisitions, permitted guarantees and security, permitted distributions and permitted disposals, the Target may not acquire any company, business or undertaking, may not grant security or give guarantees nor make certain distributions or disposals.

DNB Bank ASA, London Branch has also made available to the Target various ancillary facilities (including, without limitation, an overdraft facility, bonds, guarantees and indemnities and an FX and salmon hedging facility) pursuant to an uncommitted multipurpose credit facility letter dated 22 December 2016.

Note that facility to be redeemed on completion of the Acquisition.

## **9 Litigation**

- 9.1 There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), which may have, or have had during the 12 months preceding the date of this Circular, a significant effect on the Company's and/or the Hilton Group's financial position or profitability.
- 9.2 There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have or have had during the 12 months preceding the date of this Circular a significant effect on the Target or the Target Group's financial position or profitability.

## **10 Related Party Transactions**

Details of the related party transactions between the Hilton Group and its subsidiaries that were entered into during the 28 weeks ended 16 July 2017 and the financial years ended 31 December 2016, 2015 and 2014 are incorporated into this document by reference to the 16 July 2017 interim financial statements and the 2016, 2015 and 2014 Annual Report and Accounts, as described in Part VI of this document. During the period from 16 July 2017 up to the date of this Circular, there were no new related party transactions.

## **11 Significant change**

- 11.1 There has been no significant change in the financial or trading position of the Hilton Group since 16 July 2017, being the date to which the Company prepared its last interim financial statements.
- 11.2 There has been no significant change in the financial or trading position of the Target Group since 31 December 2016, the date to which the historical financial information of the Target Group as set out in Part IV of this Circular was prepared.

## **12 Sources and bases**

In this Circular, unless otherwise stated or the context otherwise requires, the following sources and bases of information have been used:

- 12.1 Financial information relating to the Target has been extracted without material adjustment from the historical financial information set out in Part III of this Circular.
- 12.2 Financial information relating to the Hilton Group has been extracted without material adjustment from the audited annual report of the Company for the twelve months ended 1 January 2017.

## **13 General**

- 13.1 Numis has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name in the form and context in which it appears.

13.2 PricewaterhouseCoopers LLP has given and has not withdrawn its written consent to the inclusion in this Circular of its reports set out in Section A of Part III and Section B of Part IV in the form and context in which they appear.

#### 14 Incorporation by reference

The following documents which have been approved, filed with, or notified to the FCA and which are available for inspection in accordance with paragraph 15 of this Part VI, contain information about the Hilton Group which is relevant to this Circular:

- (i) the audited consolidated accounts of Hilton Food Group plc for the 52 weeks ended 1 January 2017, 53 weeks ended 3 January 2016 and 52 weeks ended 28 December 2014
- (ii) the interim results of Hilton Food Group plc for the 28 weeks ended 16 July 2017.

The table below sets out the sections of these documents which are incorporated by reference in, and form part of, this Circular, and only the parts of the documents in the table below are incorporated by reference in, and form part of, this Circular. The parts of these documents which are not incorporated by reference are either not relevant for investors or are covered elsewhere in this Circular. To the extent that any part of any information referred to below itself contains information which is incorporated by reference, such information shall not form part of this Circular.

Reference document	Information incorporated by reference in this Circular	Page number(s) in reference document
Annual Report and Financial Statements 2014 – see note 26 of the section titled ‘Notes to the financial statements’	Related party transactions	85
Annual Report and Financial Statements 2015 – see note 26 of the section titled ‘Notes to the financial statements’	Related party transactions	83
Annual Report and Financial Statements 2016 – see note 26 of the section titled ‘Notes to the financial statements’	Related party transactions	90
Half Year Report 2017 – see note 12 of the section titled ‘Notes to the interim financial information’	Related party transactions	17

#### 15 Documents available for inspection

Copies of the following documents will be available for inspection during normal working hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of Taylor Wessing LLP at 5 New Street Square, London EC4A 3TW from the date of this Circular up to and including the conclusion of the General Meeting:

- (a) the articles of association of the Company;
- (b) the Sale and Purchase Agreement;
- (c) the voting undertakings referred to in Part I of this Circular;
- (d) the service agreements and appointment letters referred to in paragraph 4 above;
- (e) the material contracts referred to in paragraph 8 above;
- (f) the annual report and consolidated audited accounts of the Company for the three financial years ended 28 December 2014, 3 January 2016 and 1 January 2017;
- (g) the report from PwC on the *pro forma* statement of net assets set out in Part IV of this Circular; and
- (h) this Circular and the Form of Proxy.

Dated: 18 October 2017

**HILTON FOOD GROUP PLC**  
**NOTICE OF GENERAL MEETING**

Notice is hereby given that a General Meeting of the Company will be held at 2-8 The Interchange, Latham Road, Huntingdon, Cambridgeshire PE29 6YE on 6 November 2017 at 10 a.m. for the purpose of considering and, if thought fit, passing the following resolutions:

**ORDINARY RESOLUTIONS**

1. THAT the proposed acquisition by the Company of the entire issued share capital of Icelandic Group UK Limited (the “**Acquisition**”), which constitutes a class 1 transaction for the purposes of the Listing Rules of the UK Listing Authority, on the terms and subject to the conditions described in the circular to the shareholders of the Company dated 18 October 2017 of which this notice of general meeting forms part, be approved and that the board of directors of the Company (the “**Board**”) (or any duly authorised committee of it) be authorised to take all such actions and steps as may be necessary, expedient or desirable in order to effect the Acquisition as the Board or any such committee thinks fit and to make any non-material alterations, modifications, variations, revisions or amendments to the terms and conditions of the Acquisition as the Board or any such committee may in its absolute discretion deem necessary, expedient or desirable.
2. THAT, in accordance with section 551 of the Companies Act 2006 (the “**Act**”) and in addition to the existing authorities, the directors of the Company from time to time (the “**Directors**”) be generally and unconditionally authorised to exercise all powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company up to a maximum aggregate nominal amount of £735,000.00 (7,350,000 Ordinary Shares) pursuant to the Placing Agreement provided that this authority will expire on 31 December 2017 (unless renewed varied or revoked by the Company prior to or on that date) but the Company may, before this authority expires, make an offer or agreement which would or might require shares in the Company or rights to be allotted or granted after this authority expires and that the Directors may allot shares in the Company or grant rights pursuant to such an offer or agreement as if the authority conferred by this resolution had not expired.

**SPECIAL RESOLUTION**

3. THAT, subject to and conditional upon the passing of resolution 2, in accordance with section 571(1) of the Act, the Directors be empowered to allot equity securities for cash (within the meaning of section 560 of the Act) pursuant to the authority conferred by resolution 2, as if section 561 of the Act did not apply to any such allotment, up to an aggregate nominal value of £735,000.00 (7,350,000 Ordinary Shares) pursuant to the Placing Agreement, provided that this authority will expire on 31 December 2017 (unless renewed varied or revoked by the Company prior to or on that date) but the Company may, before this authority expires, make an offer or agreement which would or might require shares in the Company or rights to be allotted or granted after this authority expires and that the Directors may allot shares in the Company or grant rights pursuant to such an offer or agreement as if the authority conferred by this resolution had not expired.

**BY ORDER OF THE BOARD,**

Neil George  
*Secretary*  
18 October 2017

*Registered Office:*  
2-8 The Interchange  
Latham Road  
Huntingdon  
Cambridgeshire  
PE29 6YE

Notes:

- 1) As at 17 October 2017 (being the last business day prior to the publication of this notice) the issued ordinary share capital of the Company, excluding those shares held in treasury, was 73,996,661 Ordinary Shares of £0.10, carrying one vote each. Therefore, the total voting rights for the purposes of the General Meeting in the Company as at 17 October 2017 is 73,996,661.
- 2) A member entitled to attend and vote at this meeting is entitled to appoint another person as his proxy to exercise all or any of their rights to attend, and to speak and vote on their behalf at, the meeting and at any adjournment of it. It should be noted that if anyone other than the Chairman of the meeting is appointed as a proxy, then the votes attributable to such a holding will be disregarded when the voting numbers are subsequently reported by the Company. A member may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. If a proxy appointment is submitted without indicating how the proxy should vote on any resolution, the proxy will exercise his discretion as to whether and, if so, how he votes. (If you are not a holder of Ordinary Shares but you have been nominated by a member of the Company to enjoy information rights, you do not have any right to appoint one or more proxies and should read note 7 below).
- 3) A proxy need not be a member of the Company. A proxy form which may be used to appoint a proxy and give proxy instructions accompanies this notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact our shareholder helpline on 0371 384 2030 if calling within the United Kingdom or +44 121 415 7047 if calling from outside the United Kingdom or write to the Company's registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 8:30 – 17:30, Monday to Friday excluding public holidays in England and Wales. Calls may be recorded and monitored for security and training purposes. Members may also appoint a proxy through the CREST electronic proxy appointment service as described in note 12 below.
- 4) To be valid, any form of proxy or other instrument appointing a proxy must be received by:
  - a) post or (during normal business hours only) by hand by the Company's registrar Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA; or
  - b) as an alternative to completing the hard-copy proxy form, you can appoint a proxy electronically by visiting [www.sharevote.co.uk](http://www.sharevote.co.uk),which must be received no later than 48 hours (excluding non-business days) before the start of the meeting, together with, if appropriate, the power of attorney or other authority under which it is signed or a duly certified copy of that power or authority.
- 5) The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in note 12(i) below) will not prevent a member attending the meeting and voting in person if he/she wishes to do so.
- 6) A vote withheld option is provided on the form of proxy to enable you to instruct your proxy not to vote on any particular resolution, however, it should be noted that a vote withheld in this way is not a 'vote' in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.
- 7) Note to nominated persons – any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1, 2 and 3 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.

- 8) To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the votes they may cast), members must be registered in the register of members of the Company at 6:30 p.m. on 2 November 2017 (or, in the event of any adjournment, 6:30 p.m. on the date which is two business days before the time of the adjourned meeting). Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
- 9) In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
- 10) If a member submits more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
- 11) Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (i) to do so would interfere unduly with the preparation for the meeting or would involve the disclosure of confidential information or (ii) the answer has already been given on a website in the form of an answer to a question or (iii) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
- 12) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for this general meeting to be held on 6 November 2017 and any adjournment(s) of the meeting by using the procedures described in the CREST Manual, which can be viewed at [www.euroclear.com](http://www.euroclear.com). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. Please note the following.
  - i) In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "**CREST Proxy Instruction**") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("**EUI**") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by the latest time(s) for receipt of proxy appointments specified in this notice of the general meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
  - ii) CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
  - iii) The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
- 13) Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not so in relation to the same shares.

- 14) A copy of this notice, and other information required by section 311A CA 2006 can be found at [www.hiltonfoodgroupplc.com](http://www.hiltonfoodgroupplc.com).
- 15) Except as provided above, members who wish to communicate with the Company in relation to the meeting should do so using the following means:
  - (a) calling our shareholder helpline as detailed in note 3; or
  - (b) writing to the Company Secretary, Hilton Food Group plc, 2-8 The Interchange, Latham Road, Huntingdon, Cambridgeshire PE29 6YE

No other methods of communication will be accepted.

