Europe's leading
specialist retail meat packing business

Hilton Food Group plc
Annual report 2008

Hilton Food Group plc, the leading specialist meat packing business supplying major international food retailers in Europe, is pleased to announce its results for the year to 31 December 2008.

Contents

Key strengths

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

How we measure the value we add to our customers' businesses

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

Overview

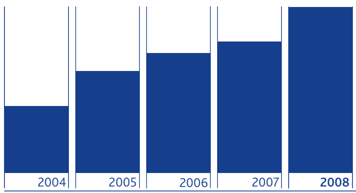
"Despite a worsening general economic background across Europe and the consequent pressure on consumer spending, I am pleased to report that 2008 has been a successful year for the Group, with trading in line with the Board's expectations. These results demonstrate the relative resilience of our business in a more challenging environment. Continuing volume and turnover growth was achieved across all the territories in which Hilton operates, during a year which saw the successful completion of further capacity expansion projects and continued investment in our facilities across Europe."

Robert Watson OBE, Chief Executive

Financial highlights

Turnover £m

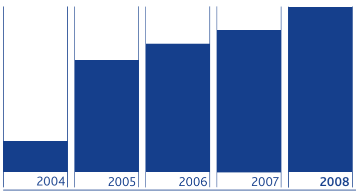
	western europe	other	Total
2008	**679.7**	**49.8**	**729.5**
2007	551.8	25.9	577.7
2006	517.9	8.8	526.7
2005	447.9	–	447.9
2004	293.6	–	293.6



£729.5m

Operating profit £m

	western europe	other	Total
2008	**18.9**	**1.3**	**20.2**
2007*	16.8	0.6	17.4
2006	15.4	0.3	15.7
2005	13.7	–	13.7
2004	3.8	–	3.8

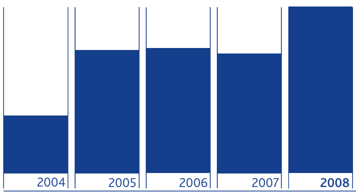


£20.2m

Cash generated from operations* £m

	Total
2008	**35.3**
2007*	25.4
2006	26.5
2005	26.1
2004	12.2

*In respect of the year to 31 December 2007, operating profit and cash generated from operations are stated before a significant item which comprised the costs to the Group associated with the flotation of Hilton Food Group plc on the London Stock Exchange in May 2007 of £1.8m.



£35.3m

Where we operate

We have operations in five European locations and are looking to expand and grow our businesses further within the European marketplace.

1 UK

Commenced production

1994

Location	Huntingdon
Customer	Tesco UK

2 Netherlands

Commenced production

2000

Location	Zaandam
Customer	Albert Heijn

3 Ireland

Commenced production

2004

Location	Drogheda
Customer	Tesco Ireland

4 Sweden

Commenced production

2004

Location	Vasteras
Customer	ICA

5 Central Europe

Commenced production

2006

Location	Tychy, Poland
Customers	Ahold Czech Republic Tesco Central Europe


1
2
3
4
5

Chairman's statement

The year to 31 December 2008 has been the Group's first full year's trading since its flotation on the main market of the London Stock Exchange in May 2007. During the past 12 months our trading has been robust, despite rising raw material prices and a steadily worsening general economic climate across Europe. The Group has made good progress, achieving strong sales and volume growth in all the territories in which it operates, whilst continuing to generate the levels of cash flow necessary to provide a solid platform for its future growth and development as well as rewarding shareholders with a good dividend return.

Performance highlights

In 2008 the Group achieved a continuing increase in volumes of meat packed for its customers, in excess of 9%. Turnover rose by over 26% to £729.5m, reflecting both the recovery of higher average raw material input prices, the volume increase and the impact of favourable currency movements throughout the year. These increases reflected growth across all the countries in which the Group operates, together with a material expansion of our business in Central Europe and the commencement, in August 2008, of our new bacon and sausage packing business in Ireland.

Operating profit before significant items rose by 16%, from £17.4m to £20.2m. Interest cover was 7 times (2007: 9 times).

Basic earnings per share were 16.5p (2007: 15.0p before flotation costs) an increase of 10%.

The Group has a proven cash generation track record and £35.3m was generated from operating activities in 2008 which contributed to reducing net year-end borrowings to £28.6m, from £36.2m at the end of last year. This enables us to continuously improve and develop our facilities. Net capital expenditure of £15.1m in 2008 included the completion of the factory extension in Ireland for bacon and sausage packing and the investment required to enable the Central European expansion. In addition there was further investment at all our sites, designed both to maintain the high standard of our facilities and facilitate continued volume growth, in line with our customers' strategies.

The Group's results are considered in greater detail in the Chief Executive's review and the Group Business review sections on pages 8 to 15.

Gordon Summerfield CBE
Non-Executive Chairman

Dividends to shareholders

The Board is recommending a final dividend of 5.74p per ordinary share. Together with the interim dividend of 2.4p per ordinary share paid in December 2008, this makes a total dividend for the year of 8.14p per ordinary share, a 10.0% increase. Our dividend policy is designed to ensure that our shareholders benefit from the growth in profits and cash flow achieved by the Group, whilst leaving sufficient funds available to invest for the future. We continue to target a progressive dividend policy that provides an appropriate return to shareholders and a dividend level that grows in line with the underlying earnings of the Group. The final dividend, if approved by shareholders, will be paid on 3 July 2009 to shareholders on the register on 5 June 2009 and the shares will be ex dividend on 3 June 2009.

Our people

The strong progress achieved this year reflects the skills, dedication and hard work of our managers and employees who have continued to operate the business with the level of professionalism required to achieve continued growth, without any compromise in relation to standards of customer service. As our business continues to grow, we will continue to invest in strengthening our management teams, both to facilitate future growth and ensure that appropriate succession plans are set in place across the business.

Employee sharesave scheme

To help align our employees' interests with the Group's performance, and to give all our employees the opportunity of sharing in the Group's future success, the Group launched a savings related share option scheme in December 2008. Such schemes provide a simple method of saving and the initial up-take was encouraging across all the five countries in which we operate, indicating the level of confidence that our employees have in our future development, despite the challenging economic backdrop.

Your Board

The Board has continued to benefit from the range of skills and depth of practical experience available to support our management teams in five European countries. There were no changes to the Board during the year and I thank my colleagues for their continued commitment and support.

Corporate Governance

The Board has continued to review closely its compliance with the Combined Code on Corporate Governance and details of the Group's compliance are set out in the Directors' remuneration report and Corporate Governance statement on pages 22 to 28.

Business development and strategy

The Group's historical growth has been based both on the success achieved by the Group's retail partners in their individual markets and by Hilton progressively expanding the range of meat lines packed for those partners. The start of bacon and sausage production in Ireland in 2008 is a recent example of this strategy. Such volume growth progressively reaps increased economies of scale, to the benefit of both parties, and is particularly important in the more challenging economic environments now faced by the Group and its partners across Europe. We continue to focus on further opportunities for geographical expansion.

Looking to the future

The Group's historical growth has been achieved both by geographical expansion and continuing organic growth in each country in which it operates. Volume growth continues and was over 9% in 2008, but may moderate somewhat in 2009, as our customers face far more challenging trading conditions.

Whilst our business will not be immune to the worsening economic climate, the Board expects, with a strong business model, to achieve further progress in 2009. Trading in the early part of 2009 has been in line with the Board's expectations.

Gordon Summerfield CBE
Non-Executive Chairman

30 March 2009

Chief Executive's review

2008 has seen a year of continued growth for the Hilton Food Group across all the five countries in which we operate. Our performance, in terms of both top and bottom line growth, has been strong, despite a steadily worsening general economic backdrop.

Segmental review of activities

Western Europe

Operating profit of £18.9m (2007: £16.8m) on turnover of £679.7m (2007: £551.8m)

Western Europe covers the Group's businesses in the UK, Ireland, Holland and Sweden. Good progress was made across all four businesses in 2008, with each of our retail partners continuing to achieve organic growth. Volume growth was 5.6%, with turnover growth of 23.2% reflecting the recovery of higher average raw material prices and favourable currency movements during the period. There has inevitably been some trading down by consumers, in the face of worsening economic conditions, from more expensive meat cuts to part processed meat products such as mince, burgers and kebabs. Hilton is, however, a very efficient processor and packer of processed meat products and is well placed for this recent shift in consumer preference. In December 2008, shortly after the successful launch of our Irish breakfast meats business there was a recall of all pork products by the Irish Government, due to 'on farm' animal feed contamination. However, given the nature of our business model and with a government compensation scheme put in place, the effect on Hilton's Irish business has been limited.

Other Regions

Operating profit of £1.3m (2007: £0.6m) on turnover of £49.8m (2007: £25.9m)

Other Regions currently comprises the Group's expanding meat packing business in Central Europe, supplied from its packing plant in Tychy, in southern Poland. Volume growth of 57.7% was achieved in 2008, with turnover growth of 92.4%. This rapid growth reflected the progressive extension of deliveries, after a trial period, to Tesco stores in Hungary, Czech Republic, Poland and Slovakia, whilst sales to Ahold's Czech Republic business also continued to grow strongly. Volumes expanded over the year, but there were start up costs involved in supplying the four new customer channels, initially at very low volumes and with unavoidably high unit costs.

Customer partnerships

Hilton's growth has been based on its strong long-term relationships with its successful retail partners, with whom the Group continues to work closely to deliver high service levels, consistent and high product quality, product innovation and high levels of food safety assurance and product integrity. Consistently meeting these standards has allowed the Group to continue to build volumes and progressively reduce unit packing costs, which becomes increasingly important in a recessionary climate. The strength of these partnerships has been the key driver of our growth ever since the Group was formed and will continue to underpin the Group's strategy going forward.

Robert Watson OBE
Chief Executive Officer

Each of our packing facilities is bespoke and has been tailored to meet the specific needs of the Group's partner in the country concerned. Although we use common processing and packaging principles and blueprints, we do not simply replicate our facilities from one country to another. Each of our partners and markets are different and we believe that our success owes much to the time we have taken to understand in detail the very different needs of our customers, together with the specific requirements of the local markets in which they operate.

Investment in facilities

Modern, well invested facilities have always been a key competitive advantage to Hilton, which operates a high volume business where it is imperative to keep unit costs low and continuously improve product quality. Over the five years to December 2008 capital expenditure on the Group's packing facilities has totalled nearly £80m, the larger part of which has been spent on major capacity expansion projects. We are pleased to report that the most recent capacity expansion project, at Drogheda in Ireland for bacon and sausage production, was completed in August 2008, on time and budget, with minimal disruption to customer service levels and with encouraging initial sales volumes.

The importance of scale

The Group's packing plants operate at the very high throughput levels necessary to achieve low unit packing costs and each is continuously involved in a wide range of new product and packaging developments, which, together with extending the ranges of products packed, can serve to increase the utilisation of its packing facilities. This enables us to drive unit costs down still further, which is vital in a more challenging economic climate. This can only be achieved by using very modern high speed packing facilities, combined with an intensive focus on product quality, food safety and product integrity.

We believe in continuously developing our facilities, not only to grow with our customers, but to constantly improve our production processes, in order to maximise efficiency. We work closely with our customers, to continually evolve our facilities in order to produce new product and packaging concepts, which best practice we can, as a multinational company, share across all our facilities.

Our staff

Hilton promotes a diverse, committed and well trained workforce that recognises the rights of all employees. Our employees make us successful and we are committed to the development of professional and well motivated teams at all our locations.

Our people are a key asset to the business and the continued progress made by the Group in 2008 is attributable to the strength, skills and professionalism of the dedicated workforces in each country. On behalf of the Board, we would like to thank them for their continued commitment, enthusiasm and expertise.

We employ 1,517 people in five separate focused business units, operating on the basis of detailed daily, weekly and monthly reporting procedures that ensures that everyone focuses tightly on the delivery of agreed business improvement targets. From the start of each new business we progressively embed our business culture, whilst being sensitive to the need to adapt our ways of working to complement the culture and values of each individual country in which we operate.

Summary

Our strategic approach, which is detailed in the Group Business review on pages 10 to 15, has generated continuing strong top and bottom line growth over an extended period. We have a strong business model and we will remain sufficiently flexible to be able to take advantage of any new opportunities which may emerge in the changed economic environment.

Robert Watson OBE
Chief Executive Officer

30 March 2009

Group Business review

Nigel Majewski
Finance Director

Basis of accounts presentation

The Group is presenting its results for the year to 31 December 2008, with comparative information for the year to 31 December 2007. The results of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Financial performance

Revenue

The underlying trading performance has again been strong, with volumes growing overall by 9.2%. Further details of volume growth by segment are detailed in the Chief Executive's review. Total Group turnover rose by 26.3% to £729.5m, compared to £577.7m in 2007. The turnover increase is well above the level of volume gains, reflecting the recovery of higher average raw material prices and the effect of favourable exchange movements throughout the year.

Gross profit margin

Gross profit margins at 13.6% were lower than last year (2007: 14.2%), reflecting the raw material price increases and start up costs in both Poland and Ireland.

Operating profit

Operating profit, at £20.2m was 16.1% above the operating profit of £17.4m (before flotation costs) made in 2007. Operating profit benefited from £0.6m. of currency translation gains, offset by the start up costs in Ireland and Poland.

Interest

Net finance costs rose from £2.0m to £2.9m. The increase comprises interest on the bank borrowings which were put in place prior to the Company's flotation in May 2007, for the first full year.

Profit before taxation

Profit before taxation, at £17.3m, was £3.7m higher than in 2007 (£13.6m), reflecting the absence of the one off charge for flotation costs of £1.8m in 2007, the operating profit improvement of £2.8m, and the increase in finance costs of £0.9m detailed above.

Taxation

The taxation charge for the period was £4.8m. This included a one off tax charge of £0.9m following a change of tax law in the UK Finance Act 2008 which will phase out Industrial Buildings Allowances from 2008 onwards, and a one off tax benefit of £0.6m resulting from the adjustment of previous taxation provisions. Excluding these two one off factors, the taxation charge, at £4.5m, represented an effective rate of 26%, with profits in certain overseas countries being taxed at rates lower than in the UK.

Earnings per share

Basic and diluted earnings per share were 16.5p (2007: 15.0p, before restructuring and flotation costs and 12.7p after accounting for these costs) an increase of 10%.

Cash flow and borrowings

Cash flow continued to be strong, with the Group generating £11.7m of free cash flow before dividends to shareholders (2007: £11.4m). This has enabled the Group to steadily reduce the level of net debt outstanding. Group borrowings, net of cash balances of £25.8m, stood at £28.6m at 31 December 2008.

Treasury policy

Presentational currency

The presentational currency of the Group is Sterling.

Foreign exchange rate movements

The Group's overseas subsidiaries earnings are translated into Sterling at the average rates for the year and their assets and liabilities at the year-end closing rates. The timing of the repatriation of profits to the UK and the repayment of any intra group loans to UK holding companies have regard to actual and forecast exchange rates. Changes in relevant currency parities are regularly monitored and whilst the Group has not to date hedged its foreign exchange rate exposures, the impact of which has been favourable over recent years, this policy is kept under continuing review. The Group's overseas subsidiaries have natural hedges in place as, for the most part, they buy raw materials, employ people, source services, sell products and arrange funding in their local currencies.

Interest rate risk

The risk arises from the fact that the interest on the Group's Sterling borrowings is variable, being at agreed margins over LIBOR, which fluctuates. The Board's policy is to have an interest rate cap on the majority of its Sterling borrowings. It currently has in place a three year cap at 6.5% on £30m of its term loan from Ulster Bank, the interest rate on which is LIBOR plus an agreed margin.

Customer credit and price risk

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

Liquidity risk

This is an area which in many businesses represents a material concern, given the deteriorating economic environment and liquidity constraints in banking systems. Whilst the Hilton Food Group continues to be cash generative, has a strong balance sheet and has committed banking facilities for the medium term sufficient to support its existing business, all bank positions are monitored daily and capital expenditure above certain levels, together with decisions on intra group dividends, are approved at Board meetings. All long-term debt is arranged centrally and is subject to Board approval.

Going concern

The Group's bank borrowings are detailed in note 20 to the financial statements on page 47 and the principal banking facilities which support the existing business are committed, with no renewal required for over four years. The Group is in compliance with all its banking covenants. Future geographical expansion, which is not built into internal budgets and forecasts, may require additional or extended banking facilities and such future geographical expansion will depend on our ability to negotiate appropriate additional or extended facilities.

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

Group objectives and strategy

Hilton's overriding objective is to achieve attractive and sustainable rates of growth and shareholder returns, with its strategy being to build on its strong historic growth, leveraging its established business model by focusing on the following key areas:

Expansion with existing customers

Hilton works closely with its customers on both developing and extending the range of products it offers, the recent expansion in Ireland into bacon and sausage packing being a current example. The Group's flexible supply and production chain allow it to add new packing lines relatively easily, taking advantage of consumer led trends and requirements. We also work on developing innovative packaging solutions to further develop our customers' private label offerings.

Given the performance demonstrated to date with existing customers, the Board believes that the Group is well placed to build on its strong customer relationships by participating in new initiatives, either via product extension or new product development in existing territories or by partnering with its customers in their overseas expansion plans.

Performance against key performance indicators (KPI's)

We monitor our progress against our objectives and strategy by reference to seven key KPI's, as set out below:

KPI	2008	2007	Definition, method of calculation and analysis
Growth in volume of packed meat sales	9.2%	16.2%	Year on year volume growth expressed as a percentage.
Growth in revenue	26.3%	9.7%	Year on year revenue growth expressed as a percentage. The larger increase, than that of volumes, in 2008 reflects the recovery of higher average raw material meat prices and the impact of favourable currency translation rates during the year.
Operating profit margin (%)	2.8%	3.0%	Operating profit expressed as a percentage of turnover. The decrease in 2008, reflects the start up costs incurred in Poland and Ireland and the higher raw material costs.
Earnings before interest, taxation, depreciation and amortisation (EBITDA) (£m)	33.3	28.4	Operating profit plus depreciation and amortisation of intangible assets and government grants. The improvement in 2008 reflects the growth in operating profit.
EBITDA (%)	4.6%	4.9%	Operating profit plus depreciation and amortisation of intangible assets and government grants, as a percentage of turnover. The reduction in 2008 reflects the reduced operating profit margin (above).
Free cash flow before minorities (£m)	11.7	11.4	Cash flow before dividends and financing. The improvement reflects the increase in EBITDA and reduced working capital levels, offset by higher capital expenditure and higher interest and taxation payments.
Gearing ratio (%)	0.9	1.3	Year-end net debt divided by EBITDA. The decrease in 2008 reflects the higher level of EBITDA and the reduced net debt level at 31 December 2008.

Going forward, the Group's objective is to continue to perform strongly against existing KPI measures. Each of the Group's operating businesses has a range of non-financial KPI's, but these cannot be meaningfully aggregated on a Group basis.

Adding new customers
We continue to focus on further opportunities for geographical expansion. Whilst relationships with existing customers have afforded the Group the opportunity to expand rapidly, its track record and outstanding facilities also provide a credible basis for attracting new customers in new countries and exploring where our business model can, appropriately adapted, produce economic advantages for both parties.

There are a number of new business prospects which are currently being progressed. Even against the background of the current difficult economic climate, the Directors believe that the business remains well placed to take advantage of the potential growth opportunities outlined above.

Continual focus on cost, quality and product development
Over the five years to 31 December 2008 the Group has invested nearly £80m in both new and existing facilities to increase capacity and enhance its processing technology. The Group maintains these facilities at the advanced technological level required for efficient operations that support high volumetric utilisation, thereby ensuring it continues to improve quality and remain cost competitive. We work closely with our customers to ensure rigorous quality, food safety and product integrity standards are continuously met.

Resources, risks and significant relationships
Resources
The Group takes considerable care to safeguard the assets that afford it competitive advantage. These include product quality, product integrity and food safety levels, customer service and product innovation levels, its operational management and skilled workforces and its modern well invested packing plants.

Reputation
Hilton's reputation comprises many facets including product quality and presentation, food safety and integrity, product innovation, service levels, health and safety, the manner in which it treats its employees and suppliers and the way in which it operates its facilities. All of these elements, which are achieved within a culture of safe working whilst operating within all applicable regulations, are the responsibility of the operational management teams in each country. In addition, the local management teams are supported by specialist central expertise and assistance, as and when required.

Meat packing facilities
The business has invested nearly £80m over the last five years to increase packing capacity, in order to be able to service its customers growth plans, whilst ensuring its packing facilities are kept at a state of the art level, both in terms of packing speeds, in order to reduce unit costs, and to both continuously improve product quality and reduce the environmental impact of the Group's operations.

Employees
The Group continues to invest in its people. In addition to training and mentoring programmes, where additional skills are required, the strategies for retaining key staff include the provision of terms and conditions which are competitive in each locality, together with employer contributions to defined contribution pension schemes. In 2008 a sharesave scheme has been made available to all employees, to enable them to share in the Group's future growth.

Customers
Hilton has a comparatively narrow customer base, with sales to Tesco, Ahold (and its subsidiaries) and ICA currently comprising nearly all Hilton's revenue. Whilst detailed arrangements with customers vary, Hilton has partnership relationships with its multiple retail customers, which involve continuous very close liaison, discussion and co-ordination, designed to ensure the best possible outcomes for both our partners and their customers.

Suppliers
The Group maintains a wide and flexible global meat supply base, in order to be able to provide sufficient volume of products on short lead times as ordered by its customers. It has long-term trading relationships with its key suppliers, who in the UK, on the basis of the customers' preference, are owned by shareholders in the Company.

Finance
The Group is cash generative and has committed banking facilities sufficient to support its existing business for the foreseeable future, taking into account available cash balances.

Environmental matters and social and community issues
Information in relation to these matters and issues are set out in the Corporate and Social Responsibility report on pages 29 and 30.

Principal risks and uncertainties
The business has a formal system to identify, assess and manage the impact of risks on its business. The more significant risks and uncertainties faced by the Group, together with the Group's risk management process are detailed in the Corporate Governance statement on pages 25 to 28.

Main trends and factors likely to affect the future development, performance and position of the Group's businesses

Key trends and factors

Hilton is a leading specialist meat packing business supplying major international food retailers, from state of the art facilities currently located in five European countries. Private label fresh and value added packed beef, lamb and pork products are individually developed and adapted for each customer and to their local market's requirements. The Group's expansion across Europe has been underpinned by its established track record, together with its growing international reputation and experience and the close partnerships forged with successful retail customers. The countries in which the Group operates, its retail partners in those countries and the dates on which each facility commenced packing meat are set out below:

1994 – UK (Tesco)
2000 – Holland (Albert Heijn)
2004 – Ireland (Tesco)
2004 – Sweden (ICA)
2006 – Poland (Ahold and Tesco)

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

Underlying Hilton's past growth has been the consumer trend in most European markets towards convenience and one stop shopping which has led to the growth of the large food retailer chains, together with these retailers' focus on private label, which the Group supplies exclusively.

As the number of retail outlets has continued to shrink through consolidation and the larger retail chains have gained a greater share of the grocery market, these retail chains are increasingly utilising large scale central packing plants capable of producing meat products more efficiently. By shifting to these larger suppliers of pre-packed meat the retailers have effectively chosen to rationalise their supply base, to deliver lower costs and higher food safety and quality standards. This has allowed the retailers to focus on their core business whilst maximising their return on available retail space and these trends are expected to continue. The level of volumetric scale at Hilton's plants enables the levels of unit cost efficiency which become increasingly important in a more challenging economic environment.

These trends and the factors which have underpinned the past growth of the Group's business are expected to continue, albeit that in a far more challenging economic environment, volume growth may moderate in 2009, given the inevitable pressures on consumer spending.

Key strengths

Looking to the future, the Board considers that the key strengths of Hilton's businesses include its people, its customer and supplier relationships, its business model, the quality of its products, its track record and the standard of its facilities, as set out below:

Experienced management teams

The business has strong management across Europe, with self sufficient local management teams, supported by central expertise in key areas, such as raw material and equipment procurement, business development and information technology strategy.

Strong relationships and track record with major international retailers

Hilton has developed strong relationships with its retail partners based on its historical track record, working closely across their organisations and forming an integral and value added part of their supply chains. The Group has demonstrated its ability to adapt its operations to specific local market requirements, having worked alongside its retail customers whilst entering new geographic markets, and has established its reputation as a leading player in dedicated red meat packing across Europe.

A reduced risk business model

The fact that the business does not own any abattoirs gives it the freedom to purchase only those cuts of meat its customers require, which significantly reduces the risk of unwanted or uneconomic cuts. In addition, the Group has the flexibility to choose from a wide international supplier base, comprising the best suppliers, without being tied to any one meat supplier, so as to enable it to achieve the highest quality and the most competitive purchasing terms as supply and demand and relative currency parities change across countries over time.

An established supply chain

The Group has long established procurement relationships across a range of countries and continents, with a proven record of competitive sourcing of meat and only such integration with its suppliers as required by its retail customers, in order to assure high quality, traceability and food safety standards. Although it is not under a contractual obligation to do so, the Group has principally sourced primal meat in the UK from abattoirs whose owners are also shareholders in Hilton, due to their high standards of supply and its customers' preference. Hilton's global sourcing capability enables it to react swiftly to changing meat values across a range of countries and continents, whether driven by supply and demand factors or changing currency parities.

High volume, efficient and modern facilities

Hilton has a modern and well invested asset base, with production processes operating at the high throughput rates required to deliver competitive unit costs. Through capital investment the Group's total production capacity has been increased significantly in the five years to December 2008. The Board believes that there is sufficient capacity currently in place to meet its customers' anticipated growth in the medium term without further significant investment, excluding normal equipment replacement and expansion by those customers of central packing into new overseas territories.

Forward looking statements

This Group Business review and the other reports which together comprise the Enhanced Business review on pages 6 to 30 contain forward looking statements that are subject to risk factors associated with, amongst other things, economic and business developments which may occur from time to time in the countries in which the Group operates. It is believed that the expectations reflected in these statements are reasonable, but all forward looking statements and forecasts involve risk and uncertainty, simply because they relate to events and depend on circumstances that will occur in the future.

On behalf of the Board

Nigel Majewski
Finance Director

30 March 2009

Board of Directors

Executive Directors

Robert Watson OBE
Chief Executive
Robert joined the Hilton Food Group as Chief Executive in 2002 and has overseen the successful growth of the Company over the last seven years. Prior to this, he worked for Foyle Food Group Limited, based in Northern Ireland, of which he was a founder in 1977. Foyle Food Group Limited remains a supplier of meat products to the Hilton Food Group.

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

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

Philip Heffer
Tesco Business Director
Philip joined the Hilton Food Group at its inception in 1994, as Managing Director, having worked in a similar role for the Group's UK subsidiary Hilton Meats (Retail) Limited for the same period. In 2004 Philip was appointed to his current role as Managing Director for the Hilton Food Group's UK and Irish businesses, with overall responsibility for all business with Tesco within the Hilton Food Group. Prior to this, Philip held senior positions within the RWM Food Group Limited, which remains a supplier of meat products to the Hilton Food Group.

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

Non-Executive Directors

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

Gordon Summerfield CBE snu
Non-Executive Chairman
Gordon joined the Hilton Food Group in 2003, as Non-Executive Chairman, after more than 40 years in the food industry with Northern Foods plc and Unigate plc .Gordon was President of the Dairy Trade Federation between 1994 and 1997, a council member of the Institute of Grocery Distribution between 1991 and 1998 and Chairman of Food from Britain from 2000 to 2005. Gordon is Chairman of the Nomination Committee.

Sir David Naish DL slnu
Non-Executive Director
Sir David joined the Hilton Food Group in 2007, as a Non-Executive Director, after retiring from the Chairmanship of Arla Foods UK plc. Sir David is a past President of the National Farmers Union and is currently Chairman of his family farming businesses, a director of Wilson Insurance Broking Group Limited and Caunton Engineering Limited, in addition to being a Non-Executive Director of Woodard Schools (Nottinghamshire) and a Trustee of several charities related principally to the agrifood industry and education. Sir David is Chairman of the Remuneration and Related Party Supply Committees.

Chris Marsh and Sir David Naish are considered to be independent.

s Member of the Remuneration Committee
l Member of the Audit Committee
n Member of the Nomination Committee
u Member of the Related Supply Committee

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 December 2008.

Principal activities, business review and future outlook

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

The Companies Act 1985 Section 234ZZB requires the Company to set out, in this report, a fair review of the business of the Group during the year ended 31 December 2008, including an analysis of the position of the Group at 31 December 2008 and a description of the principal risks and uncertainties facing the Group (which together are known as an "Enhanced Business Review").

The information which comprises the requirement for an Enhanced Business Review can be found in the Chairman's statement on pages 6 and 7, the Chief Executive's review on pages 8 and 9, the Group Business review on pages 10 to 15, the Corporate Governance statement on pages 25 to 28 and the Corporate Social Responsibility report on pages 29 and 30. All the information detailed in these sections is incorporated by reference into this report and deemed to form part of it.

Results and dividends

The profit before taxation is £17.3m (2007: £13.7m). After a taxation charge of £4.8m (2007: £4.2m) and minority interests of £1.0m (2007: £0.7m) the net income for the period is £11.5m (2007: £8.8m). An interim dividend of 2.4p per ordinary share was paid in December 2008. The Directors recommend the payment of a final dividend for the period, which is not reflected in these accounts, of 5.74p per ordinary share, which, together with the interim dividend, represents 8.14p per ordinary share, totalling £5.7 m.

Subject to approval at the Annual General Meeting, the final dividend will be paid on 3 July 2009 to members on the register at the close of business on 5 June 2009. Shares will be ex dividend on 3 June 2009.

Financial instruments

The Group's risk management objectives and policy are discussed in the Treasury policy section of the Group Business review on page 11.

Directors and their interests

The Directors of the Company currently in office, together with their biographical details, are as set out on pages 16 and 17. All the Directors served for the whole of the year under review, during which there was no change in the composition of the Board. Directors are subject to re-election after the year in which they are appointed and one-third of the Board is subject to re-election every year. Colin Patten and Philip Heffer retire in accordance with the Articles of Association and, being eligible, offer themselves for re-election. Details of their service contracts are set out on page 22.

The interests of the Directors, as defined by the Companies Act 1985, in the voting rights of the Company were as follows:

	On 31 December 2008 ordinary shares	On 31 December 2007 ordinary shares
G. Summerfield	116,666	66,666
R. Watson	2,959,167	2,869,167
C. Patten	4,312,500	4,312,500
P. Heffer	4,174,500	4,174,500
N. Majewski	13,333	13,333
T. Bergman	328,333	328,333
C. Marsh	30,000	30,000
D. Naish	20,000	20,000

All of the above interests are beneficial, with the exception of 431,250 shares held by the R. A. Watson Discretionary Settlement and 166,667 shares held by the A M Settlement 1997 Trust Limited. R. Watson is a trustee of both these trusts. There have been no changes in the interests of Directors as between 31 December 2008 and the date of this report.

Substantial shareholdings

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

	Number of ordinary shares	Percentage of issued share capital	Nature of holding
H C Tweedie	4,312,500	6.19%	Indirect
G Heffer	4,174,500	5.99%	Direct
R Heffer	4,174,500	5.99%	Direct
Irish Food Processors	4,096,700	5.88%	Indirect
F&C Asset Management	3,921,010	5.63%	Indirect
JPMorgan Asset Management	3,134,600	4.50%	Indirect
AXA Framlington Investment Managers	3,045,000	4.37%	Indirect

Charitable and political donations

During the year the Group made charitable donations for the benefit of local communities in which the Group operates amounting to £28,394 (2007: £5,871). No donations for political purposes were made during the year (2007: Nil).

Employment policy and involvement

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

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

Supplier payment policy

In the UK the Group follows the Better Payment Practice Code. The Code requires a company to agree the terms of payment with its suppliers, to ensure its suppliers are aware of those terms and to abide by them. The Group policy is also to apply the requirements of the Code in each of its European subsidiaries. At 31 December 2008 the Group's trade creditors represented 46 days of purchases (2007: 41 days), the increase reflecting the timing of the year end which increased the level of trade receivables and payables, there having been no change in supplier payment terms.

Share capital structure

The Company has one class of shares, being ordinary shares of 10p each. Share capital is detailed in note 24 to the financial statements on page 49. There are no special rights pertaining to any of the shares in issue. The Company has authority to purchase up to 10% of its own shares subject to the conditions set out in resolution 16 of the Annual General Meeting held on 9 June 2008. This authority expires on the earlier of the date of the next Annual General Meeting or 9 September 2009.

Share options

Details of all options granted but not exercised or lapsed at 31 December 2008 are shown in note 24 to the financial statements on page 49.

Auditors

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

Corporate governance

The Directors consider that the Company has, during the year to 31 December 2008, complied with the requirements of the Combined Code on Corporate Governance (the "Combined Code"), taking into account the provisions for smaller companies.

Hilton Food Group supports the highest standards of corporate governance, business integrity and professionalism in the way it conducts its activities. The Corporate Governance statement on pages 25 to 28, and the Directors' remuneration report on pages 22 to 24, detail how the Board applies the principles of good governance and best practice as set out in the Combined Code.

Directors' statement as to disclosure of information to auditors

The Directors who were members of the Board at the time of approving the Directors' report are listed on pages 16 and 17. Having made enquiries of fellow Directors and the Company's auditors, each of these Directors confirm that:

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

Annual General Meeting

The Notice convening the Annual General Meeting can be found in the separate Notice of Annual General Meeting accompanying this Annual report and financial statements.

Shareholders will be invited to approve the Directors' remuneration report set out on pages 22 to 24.

By order of the Board

Neil George
Secretary

30 March 2009

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and the profit and loss of the Group for that period.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRS as adopted by the European Union;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that, as regards the Group's financial statements, the financial statements and the Directors' remuneration report comply with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

Each of the Directors whose names and functions are set out on pages 16 and 17, confirm that to the best of their knowledge:

- the Group and parent company financial statements, prepared in accordance with applicable UK law and in conformity with IFRS, as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and the Company; and
- the management reports (which comprise the Chairman's statement, the Chief Executive's review, the Group Business review and the Directors' report on pages 6 to 19) include a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principle risks and uncertainties they face which are detailed in the Corporate Governance report on pages 25 to 28.

This responsibility statement was approved by the Board of Directors on 30 March 2009 and is signed on its behalf by:

Robert Watson OBE
Chief Executive Officer

Nigel Majewski
Finance Director

Directors' remuneration report

This report has been prepared in accordance with the requirements of Schedule 7A of the Companies Act 1985 (the Act) and the Listing Rules of the UK Listing Authority. PricewaterhouseCoopers LLP have audited the contents of the report to the extent required by the Act. A resolution to approve this report will be proposed at the Annual General Meeting.

Information not subject to audit

Remuneration Committee

The Remuneration Committee (the Committee) comprises all the Non-Executive Directors, Sir David Naish (Chairman of the Committee), Gordon Summerfield and Chris Marsh all of whom served throughout the year. The Committee invites the Chief Executive Officer, Robert Watson, to participate in its discussions, as appropriate, in an advisory capacity.

The terms of reference of the Committee can be found on the Company's website, at www.hiltonfoodgroupplc.com.

The Committee is responsible for determining the individual remuneration packages of the Company's Executive Directors in accordance with a policy determined by the Committee and agreed with the Board. It is also responsible for considering management recommendations for remuneration and employment terms for the Group's senior staff, including incentive arrangements for bonus payments and the grant of share options.

The remuneration of the Non-Executive Directors is determined by the Chairman and the Executive Directors and reflects the time, commitment and responsibility of their roles.

Remuneration policy

The Company's policy is for the overall remuneration packages offered by the Company to reward individuals for the nature of the jobs they undertake and their performance therein, whilst being sufficiently competitive to attract and retain high quality, well motivated staff whose rewards are aligned both to the progress of the Company and as far as possible to those of similar companies in comparable sectors and geographical regions. Steps have been taken during the year, including the grant of executive share options and the introduction of a formal bonus scheme for Executive Directors, to ensure that a significant proportion of senior employees remuneration packages comprise performance related elements. In 2008 performance related elements comprised 30% of the remuneration of the Executive Directors.

Review of executive remuneration

The Committee has taken independent advice during the year from Hewitt New Bridge Street, who were appointed by the Committee and who provide no other services to the Company. The review undertaken comprised a review of Executive Director remuneration packages in comparable businesses, designed to ensure that the Company's remuneration packages remain market competitive.

Remuneration package

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

Basic salary

Basic salary is reviewed annually, with the reviews being effective from 1 January in each year. With effect from 1 January 2009 basic salaries were increased by 5%.

Benefits in kind

These comprise private healthcare and the provision of a company car and fuel.

Annual bonus schemes

A formal cash bonus scheme was put in place for the Executive Directors for the year to December 2008, based on achieving a Group net income target, in order to encourage enhanced performance. In setting the targets for the scheme, the Committee considers the Group's annual budget and the need for continued progress. For the year to December 2008, the target achievement and maximum award levels for target over achievement were 40% and 80% of basic salary, respectively. A similar bonus scheme will operate in 2009, using the same performance metric and with the same level of target and maximum bonus potential.

Pensions

Employer contributions are made to Executive Directors' 'money purchase' pension schemes at the rates set out in their service contracts, which are up to 7% of basic salary for R. Watson, C. Patten, P. Heffer and N. Majewski and 20% for T. Bergman No contributions are made in respect of Non-Executive Directors.

Long Term Incentive Arrangements

Executive share options can be proposed by the Remuneration Committee and will be granted periodically to promote the involvement of senior management across the Group in the longer term success of the Group, to promote retention and the alignment of the interests of senior executives and shareholders.

The first grant of executive share options was made in May 2008, following the publication of the Company's 2007 Annual Report and Accounts. The maximum face value of options granted under the scheme is 100% of basic salary and awards were made to the Executive Directors at that level in 2008. These executive share options are exercisable after three years, subject to the growth in the Group's normalised earnings per share equalling or exceeding the growth in the UK Retail Price Index by an average of 3% per year (9.3% over three years). Normalised earnings per share was chosen as it requires a substantial improvement in the underlying financial performance of the Group, before options may be exercised.

It is the Company's intention to grant executive share options with a face value of 100% of salary to Executive Directors in 2009. It is anticipated that normalised earnings per share will continue to be used as the performance metric and the Committee will review the hurdle rate that will apply.

The scheme allows for options to be satisfied using new issue shares. There is a 5% of share capital in ten years limit for discretionary schemes as well as a 10% in ten years limit in relation to all incentive plans (including all-employee schemes such as the sharesave scheme).

Sharesave scheme

The Group has a sharesave scheme, which was launched in December 2008, that is open to all employees in the five countries in which the Group operates, including the Executive Directors. 20% of employees took up the offer. No performance conditions are attached to options granted under the scheme as it is an all-employee scheme.

The scheme is administered by Employee Share Services, Halifax plc and HBOS Employee Equity Solutions, both of whom are divisions of Lloyds Banking Group plc.

Service contracts

The current service contracts with all Executive Directors commenced on 24 April 2007 and can be terminated upon 12 months' notice by either party. Each of the Non-Executive Directors entered into a letter of appointment with the Company dated 24 April 2007. Their appointments are for an initial period of three years, terminable upon six months' notice by either party. The Non-Executive Directors receive the fees set out in their letters of appointment.

Total shareholder return (TSR) performance

The graph below illustrates the TSR performance (share price movements plus reinvested dividends) of the Company against the FTSE Small Cap Index from flotation on 17 May 2007 to 31 December 2008. The FTSE Small Cap Index is, in the opinion of the directors, the most appropriate index against which the TSR of the Company should be measured.

Auditable information

The following information has been audited by the Company's auditors, PricewaterhouseCoopers LLP, as required by the Companies Act 1985.

Directors' remuneration

The remuneration of Directors for the year was as follows:

	2008 £'000	2007 £'000
Fees and basic salary	**1,403**	1,254
Bonuses	**667**	62
Benefits in kind	**135**	109
	2,205	1,425
Pension contributions	**111**	105
	2,316	1,530

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

	Fees and basic salary £'000	Accrued bonuses £'000	Benefits in kind £'000	Total 2008 £'000	Total 2007 £'000	Pension 2008 £'000	Pension 2007 £'000
Executive Directors							
R. Watson	**300**	**159**	**31**	**490**	306	**21**	19
C. Patten	**240**	**127**	**32**	**399**	248	**16**	17
P. Heffer	**240**	**127**	**31**	**398**	259	**12**	16
T. Bergman	**241**	**127**	**22**	**390**	256	**48**	39
N. Majewski	**240**	**127**	**19**	**386**	226	**14**	14
Non-Executive Directors							
G. Summerfield	**72**	**–**	**–**	**72**	72	**–**	–
C. Marsh	**35**	**–**	**–**	**35**	29	**–**	–
D. Naish	**35**	**–**	**–**	**35**	29	**–**	–
Total	**1,403**	**667**	**135**	**2,205**	1,425	**111**	105

Governance

Share option schemes

Options over Hilton Food Group plc ordinary shares granted under the executive share option and sharesave schemes held by Directors at 1 January 2008 and 31 December 2008, were as follows:

Director	At 1 January 2008	Granted	At 31 December	Exercise Price Pence	Earliest exercise date	Latest exercise date	Notes
R. Watson	–	150,376	150,376	199.5	12.05.11	12.05.18	1
	–	6,531	6,531	147.0	19.12.11	19.06.12	2
C. Patten	–	120,301	120,301	199.5	12.05.11	12.05.18	1
P. Heffer	–	120,301	120,301	199.5	12.05.11	12.05.18	1
	–	6,531	6,531	147.0	19.12.11	19.06.12	2
T. Bergman	–	120,301	120,301	199.5	12.05.11	12.05.18	1
N. Majewski	–	120,301	120,301	199.5	12.05.11	12.05.18	1
	–	6,531	6,531	147.0	19.12.11	19.06.12	2

1. Executive share options are subject to a performance condition of growth in the Companies normalised Earnings per share equalling or exceeding the growth in the UK Retail Prices Index by an average of 3% per annum (9.3% over three years), for the options to be exercisable.

2. Options granted under the sharesave scheme. As this is an all-employee scheme, no performance conditions are attached.

The closing market share price on 31 December 2008 was 155.0p and the high and low closing market share prices during 2008 were 223.0p and 142.0p, respectively.

On behalf of the Board

Sir David Naish DL
Chairman of the Remuneration Committee

30 March 2009

Corporate Governance statement

Compliance statement

The Directors consider that the Company has, during the year to 31 December 2008, complied with the requirements of the Combined Code on Corporate Governance (the "Combined Code"), taking into account the provisions for smaller companies. The provisions of the Combined Code can be obtained from www.frc.org.uk/corporate/combinedcode.cfm.

The Company supports the highest standards of corporate governance, business integrity and professionalism in the way it conducts its activities. This statement and the Directors' remuneration report on pages 22 to 24, detail how the Board applies the principles of good governance and best practice as set out in the Combined Code.

The Board of Directors

The Board is collectively responsible for promoting the success of the Group within a framework of prudent and effective controls that enable risk to be assessed and managed. The Board aims to enhance shareholder value by providing entrepreneurial leadership of the Group whilst ensuring the appropriate framework of checks and balances are maintained in place. The Board has specific powers reserved to it, with the schedule of matters reserved for decision by the Board covering acquisitions and disposals, major capital expenditure projects, dividends, treasury and risk management policies and budget approval.

At the date of this report the Board consists of five Executive Directors and three Non-Executive Directors. All Directors bring strong judgement to the Board's deliberations. The Board is of sufficient size and diversity that the balance of skills and experience is considered to be appropriate for the requirements of the business.

The Non-Executive Directors include the Non-Executive Chairman and the Senior Independent Director. With the exception of the Non-Executive Chairman, who is presumed under the Code not to be independent following his appointment, the Board considers the Non-Executive Directors to be independent. The Non-Executive Directors do not participate in any of the Group's pension arrangements or in any of the Group's bonus or share option schemes. The names of the Directors, together with their responsibilities, brief biographies and membership of Board Committees are set out on pages 16 and 17. The Company's Articles of Association provide that one-third of the Directors retire by rotation at each Annual General Meeting and that all new Directors are subject to election by shareholders at the first opportunity, following their appointment. Colin Patten and Philip Heffer retire in accordance with the Articles of Association at the forthcoming Annual General Meeting and, being eligible, each offers himself for re-election.

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

Members of the Board and its Committees are given appropriate documentation in advance of each Board and Committee meeting. For regular Board meetings these include a detailed period report on current and forecast trading, with comparisons against both budget and prior years. For all meetings appropriate explanatory papers are circulated in advance on matters which the Board or Committee will be required to approve or provide responses. The Board operates both formally, through Board and Committee meetings, and informally, through regular contact between Directors. To assist them to carry out their responsibilities the Directors have, in addition to full and timely access to all relevant information from management in advance of Board meetings, the right to obtain independent professional advice at the Company's expense and the advice and services of the Company Secretary to enable them to perform their duties as Directors. The Company Secretary is responsible to the Board, through the Chairman, for all governance matters. The appointment and removal of the Company Secretary is determined by the Board as a whole.

The Chairman leads a formal internal performance evaluation of the Board and its standing Committees and meets with the Non-Executive Directors at least once a year to convey his conclusions. The evaluation process involves each Director completing a detailed written questionnaire which also provides Directors with the opportunity to comment on any issues not directly covered by the questionnaire. The responses are analysed and considered by the Board who have concluded that this evaluation demonstrates that the Directors, the Board and its standing Committees are performing effectively. The Non-Executive Directors meet once a year, without the Chairman present, in order to evaluate his performance.

The table on page 26 sets out the Board and Committee meeting attendance by members, including the maximum number of meetings which could have been attended.

Board Committees

There are a number of standing committees of the Board to which relevant matters are delegated. These include the Audit, Remuneration, Nomination, Related Supply and Risk Management Committees. The Audit, Remuneration and Nomination Committees have formal terms of reference, which can be found on the Company's website, at www.hiltonfoodgroupplc.com. The Committees are provided with sufficient resources to undertake their duties through access to the Company Secretary and the ability to obtain independent professional advice, at the Company's expense, if deemed necessary. The work of these five Committees, including a summary of their terms of reference, is summarised below and in the Directors' remuneration report on pages 22 to 24.

Audit Committee

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

The Committee is chaired by Chris Marsh, who has significant and relevant current financial experience. The Committee, which meets at least three times a year, comprises the two independent Non-Executive Directors, excluding the Chairman, who between them have a wide experience of industry and commerce. The Finance Director and the Group Financial Controller, together with the external auditors and the Group Internal Auditor, attend the Audit Committee meetings, as appropriate. The external auditors and the Group Internal Auditor have the opportunity for direct access to the Committee, without the Executive Directors being present.

Corporate Governance statement
Continued

The Committee reviews the Group's accounting policies and internal accounting and control reports, together with the results of the work undertaken by Hilton's internal audit function and all reports from the external auditors. The Committee has overall responsibility for monitoring the integrity of financial statements and related announcements, together with all aspects of internal control. The Committee meets at least three times a year to review the Group's interim and full year financial statements, the scope, results and effectiveness of the work of the internal audit function, the internal and external audit plans, reports from the internal and external auditors and to monitor the external auditors independence. The Committee is responsible for recommending the appointment or removal of the external auditors and for monitoring their effectiveness, remuneration and terms of engagement, including the nature and level of non-audit services. The Board reviews annually the Group's systems of internal control on the basis of a report by the Audit Committee.

A whistle blowing policy has been put in place in 2008, in accordance with which staff can, in confidence, raise any concerns about any actual or potential improprieties, in relation to matters of financial reporting or any other aspect of the Group's businesses.

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

Remuneration Committee

The Remuneration Committee is chaired by Sir David Naish. The Committee which meets at least three times a year, comprises the three Non-Executive Directors. No Director attends any part of a meeting at which his own remuneration is discussed and the Chairman and the Executive Directors determine the remuneration of the Non-Executive Directors.

The Committee determines, within a framework agreed by the Board overall, Executive Directors individual remuneration packages and terms and conditions of service and determines the performance conditions for bonus and incentive schemes and the issue of executive share options. It also recommends and monitors the level and structure of senior management remuneration immediately below Board level. The Committee has access to advice from the Company Secretary and such external surveys of remuneration in comparable companies as it may require, in order to determine market competitive remuneration levels.

The Directors' remuneration report on pages 22 to 24 provides fuller details of the Company's executive remuneration policy and practice, and on the working of the Committee.

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

Nomination Committee

The Nomination Committee comprises the three Non-Executive Directors, chaired by Gordon Summerfield. It meets, as necessary, in order to propose to the Board new appointments of Executive and Non-Executive Directors. In a very stable environment, the Committee has met once in 2008, but has not been required to consider any such appointments. The Chairman of the Nomination Committee will be available at the Annual General Meeting to respond to any shareholder questions.

Related Supply Committee

The Related Supply Committee comprises the three Non-Executive Directors, chaired by Sir David Naish. The Committee's primary responsibility is to ensure that all commercial arrangements between the Group and shareholder owned suppliers (comprising Foyle Food Group Limited, Hilton Meats (International) Limited and RWM Food Group Limited and any of these three companies' subsidiaries) are conducted on a strictly arm's length basis and in accordance with the terms of the supply agreements agreed between the Group and those parties.

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

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

Risk Management Committee

The Risk Management Committee is chaired by the Finance Director, Nigel Majewski and comprises the five operating subsidiary company operations managers and the Group Internal Auditor, together with other personnel throughout the Group, as required. The Committee meets regularly and at least eight times a year, its principal functions are, to raise the level of management awareness of, and accountability for, business risks faced, embed risk management into the group culture, provide a mechanism for risk management issues to be discussed and disseminated and to provide advice on and co-ordinate risk management strategies across the Group, ensuring they receive the appropriate level of sponsorship and support.

The Committee is authorised to seek any information it requires from Group employees as well as any external legal or professional advice it requires and reports to the Board following each meeting.

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

Attendance at Board meetings and Committees of the Board

Details of meetings of, and members attendance at, the Board, Audit, Remuneration, Risk Management, Related Supply and Nomination Committees are set out below:

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Related Supply Committee	Risk Management Committee
Number of meetings	11	3	3	1	3	9
R. Watson	11					
C. Patten	11					
P. Heffer	11					
T. Bergman	10					
N. Majewski	11	3				9
G. Summerfield	11	3	3	1	3	
C. Marsh	11	3	3	1	3	
D. Naish	11	3	3	1	3	

Risk management

The Board has overall responsibility for the Group's system of risk management. The schedule of matters reserved to the Board ensures that the Directors control among other matters, all significant strategic, financial and organisational issues. All types of risk applicable to the business are regularly reviewed and a formal risk assessment review is carried out to highlight key risks to the business and to consider action that can reasonably and cost effectively be taken to mitigate them.

The Board believes that in carrying out the Group's businesses it is vital to strike the right balance between an appropriate and comprehensive control environment and encouraging the level of entrepreneurial freedom necessary to seek out and develop new opportunities. However skilfully this balance is struck, the business will always be subject to a number of risks and uncertainties. The key specific business risks, which are unchanged from last year and which continue to affect the Group's businesses, with, where appropriate, the strategies adopted by the Group to mitigate them, are set out in the following paragraphs:

The Group's growth potential is dependent on the success of its customers and the future growth of their packed meat sales

All of the Group's products bear the brand labels of the customer to whom the products are supplied. The Group is therefore dependent on its customers to maintain or improve the public perception of their own brand names and sales of packed meat, but will play its full part in enhancing their brand values, by providing high quality competitively priced products, high service levels and continuing product and packaging innovation.

The Group recognises that quality assurance is integral to its customers' brands and works closely with its customers to ensure rigorous quality assurance standards are met. It is continuously measured by its customers across a wide range of parameters, including delivery time, product specification and accuracy of documentation and targets high service levels across all these parameters. The Group works closely with its customers to identify improvement opportunities across the supply chain, include product presentation, extending shelf life and reducing wastage.

The Group is dependent on a small number of customers who exercise significant buying power and influence

The Group has a comparatively narrow customer base, with sales to Tesco, Ahold (and its subsidiaries) and ICA currently comprising nearly all Hilton's revenue. The large retail chains continue to increase their market share of meat products in many countries, as retail customers move away from high street butchers towards one stop convenience shopping in large supermarkets. The continuation of this trend serves to increase the buying power of the Group's customers which in turn increases their negotiating power with the Group, which may enable them to seek better terms over time.

Hilton's state of the art facilities, and management's continuous focus on reducing costs, allow it to operate efficiently at high throughputs and price its products competitively, which is particularly important in the current difficult economic environment. The Group's customer driven business model is focused solely on central meat packing and is unencumbered by the issues and conflicts faced by the majority of the Group's competitors who are involved in significant upstream processing, including rearing, slaughtering and cutting.

Hilton operates a decentralised entrepreneurial business structure, which enables it to work very closely with its retail partner in each country, and achieves high service levels in terms of orders delivered, delivery times, compliance with product specifications and accuracy of documentation, backed by an uncompromising focus on food safety and product integrity.

The Group's written supply contracts are renewable at various intervals. One such contract is due for renewal in 2009 and the Board expect this contract to be renewed on substantially unchanged terms.

The Group's business is reliant on a number of key personnel and its ability to manage growth successfully

The Group is critically dependant on the skills of a small number of senior managers and, as the business develops and expands, the Group's success will depend on its ability to attract and retain the necessary calibre of personnel in key positions. To continue to manage growth successfully, the Group will carefully manage its skill resources and continue to invest in on-the-job training and career development, together with the cost effective management of quality, appropriately scaleable information and control systems.

The Group's business is dependent on maintaining a wide and flexible global meat supply base

The Group is reliant on its suppliers to provide sufficient volume of products on short lead times as ordered by its customers. The Group sources certain of its meat requirements from outside the European Union, for example South America and New Zealand. Tariffs, quotas or trade barriers imposed by countries where the group procures meat, or may do so in the future, and the progress of World Trade Organisation talks and other global trade developments could materially affect the Group's international procurement ability, making the maintenance of a wide and flexible global meat supply base essential.

Outbreaks of disease and feed contamination affecting livestock and media concerns can impact the Group's sales

Reports in the public domain concerning the risks of consuming meat can cause consumer demand for meat to drop significantly in the short to medium term. A food scare similar to the Bovine Spongiform Encephalopathy ("BSE") scare that took place in 1996, or the much more recent disclosure of dioxin contamination of animal feed in Ireland can affect public confidence in red meats.

The Group sources its meat from a trusted raw material supply base which all meet European and customer standards. The Group is subject to stringent standards which are independently monitored in every country and reliable product traceability and high welfare standards from the farm to the consumer are integral to the group's business model. The Group ensures full traceability from source to packed product across all suppliers, countries and packing sites.

The Group's business is dependent on the state of the economy and levels of consumer spending in the countries in which it operates

No business will be immune to the worsening economic climate and the reduced levels of consumer spending currently being experienced across Europe, but the Board expects, with a sound business model and strong retail partners, to be able to able to continue to make progress.

Shareholder relations

The Company is committed to maintaining good communications with shareholders through an active programme of investor relations. The Board's assessment of the Company's position and prospects are set out in the Chairman's statement, the Chief Executive's review and the Group Business review on pages 6 to 15.

Corporate Governance statement
Continued

The Chief Executive and Finance Director meet regularly and have dialogue with institutional shareholders both to discuss the Company's performance and prospects and to develop an understanding of their views, which are fed back to the Board. Twice a year general presentations are given to analysts covering the annual and half year results and brokers reports and forecasts are circulated to the Board. The other Executive Directors are available to meet the Company's major shareholders if required and the Senior Independent Director is available to listen to the views of shareholders, should they have concerns which have not been previously resolved or which it was inappropriate to voice at prior meetings. All shareholders have the opportunity to ask questions at the Company's AGM, which all Directors and the chairmen of every Board Committee attend. In addition the Group's website containing published information and press releases can be found at www.hiltonfoodgroupplc.com.

Going concern

The Group's bank borrowings are detailed in note 20 to the financial statements on page 47 and the principal banking facilities which support the existing business are committed, with no renewal required for over four years. The Group is in compliance with all its banking covenants. Future geographical expansion, which is not built into internal budgets and forecasts, may require additional or extended banking facilities and such future geographical expansion will depend on our ability to negotiate appropriate additional or extended facilities.

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

Internal control

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

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

These include:

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

The Finance Director and Group Financial Controller are responsible for overseeing the Group's internal controls.

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

Auditor independence

The Board is satisfied that PricewaterhouseCoopers LLP has adequate policies, processes and safeguards in place, including partner rotation designed to ensure that auditor objectivity and independence is maintained. The Company meets its obligations for maintaining the appropriate relationship with the external auditors through the Audit Committee whose terms of reference include an obligation to consider and keep under continuing review the degree of work undertaken by the external auditors, other than the statutory audit, so as to ensure such objectivity and independence is safeguarded. Details of fees for non-audit work are set out in note 6 on page 42 of the financial statements.

By order of the Board

Neil George
Secretary

30 March 2009

Corporate and Social Responsibility report

Every day, the Group has to address a wide range of issues from the well-being and development of our people, to ensuring food safety and traceability and protecting the environment. The Group is committed to working with customers, suppliers, communities and competitors in an ethical, open and honest manner to produce excellent products in a responsible and sustainable manner. The philosophies which underpin our policies for the Environment, Regulatory Compliance, Health and Safety, Product Quality and Integrity and Business Conduct, which, as with all CSR initiatives, form an integral part of our overall business strategy, as are summarised below.

The environment

The Group believes that all companies must take steps to manage their impact on the natural environment. We recognise that the protection of the environment is of fundamental importance to any successful and responsible business strategy and are committed to conducting our business in a manner that is sensitive to the environmental needs of the communities in which we operate. We believe improvements to our environmental performance can make a difference to society and are committed to assessing the impacts of our operations on land, water, air and biodiversity and to managing our waste in all its forms, by reusing or recycling it, where appropriate. In the context of the total carbon footprint of retail packed meat, the Group's packing activity represents a very small proportion, but the Group takes pride in the conduct of it's business activities and is committed, working closely with it's customers, to minimising its environmental impact in all the countries in which it operates.

Environmental compliance

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

Waste

Reductions in the use of resources can bring both environmental and financial benefits in the area of wastage control. We work actively to reduce our usage of materials and the reduction of product and packaging waste has a very high priority across the Group. The yield losses incurred in processing and packing meat and packaging wastage are monitored throughout each day across the product range, at every Hilton site.

Energy usage

At all our sites the management teams work to identify areas for further efficiency gains in terms of energy usage. The Group invests heavily in maintaining state of the art high speed packing facilities, which progressively reduce energy costs per unit packed, as with the development of packing technology any given volume of meat can be packed with fewer high speed lines.

The Group's retail partners

The Group's retail partners are all heavily committed to the protection of the environment, with a very wide range of initiatives, including packaging reduction, in which the Group fully participates.

Regulatory compliance

As an international food business the Group is required to comply fully at all times with a growing body of EU and local country legislation and regulations. It also has to meet at all times the very stringent standards required by its retail partners in areas such as food safety, quality and traceability. These areas are subject to audit by the Group's customers, in addition to regular internal audits which extend beyond the Group's operations to the Group's meat and packaging suppliers.

Health and safety

The Group has no higher priority than safety, which we believe is fundamental to running a successful business and we work to continuously improve our health and safety record. The Group requires all its subsidiaries to achieve high health and safety standards within their individual operations. All subsidiaries conduct regular formal health and safety reviews. Managers and employees review policies, processes and procedures in order to ensure that risks are properly assessed, with appropriate actions taken in order to protect the safety of employees.

All accidents and incidents are fully investigated so as to ensure appropriate avoidance or remedial actions are taken and subsequently monitored. Formal reporting procedures are in place at every site so that the Group can monitor safety performance at a local level. There is a full time safety officer at each site who monitors the key measures for safety performance, which include the number of reportable and non-reportable injuries and incidents and the number of working days lost through injury, together with short and long-term sickness levels.

Social, ethical and environmental risks

The Board carries out a broad review of all business risks, as highlighted in the Corporate Governance statement on pages 25 to 28. The scope of this review covers social, environmental and ethical matters and is aimed at identifying significant risks to shareholder value, whilst providing the Board with an opportunity to manage any risks identified.

Food safety and quality

Critical to our success is the maintenance of the highest standards for our customers, with the quality and safety of our products always being the centre of our focus. The Group has detailed testing and audit procedures in place at all its sites, to ensure the highest levels of food safety assurance and product quality that are essential to its customer proposition, both at its own sites and through their supply chains. We continue to work closely with our customers and appropriate third-party experts to continuously improve our products and develop new product and packaging concepts.

Product traceability

Consumers are concerned about the origins of any product they are purchasing and particularly in relation to meat products. The Group therefore ensures that every pack of meat can be traced back to its source, across all suppliers, sites and countries, to be able to justify consumers' trust in our customers' products and to protect Hilton's position in the event of food contamination earlier in the supply chain, such as the recent animal feed contamination issue that arose in Ireland in December 2008.

Our people

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

Corporate and Social Responsibility report
Continued

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

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

Employee sharesave scheme

To help align our employees with the Group's performance ambitions, and to give all employees the opportunity of sharing in the Group's future progress, the Group launched a savings related share option scheme in December 2008. Such schemes provide a simple method of saving and the initial take up was encouraging across all five countries, indicating the level of confidence that our employees have in our future development.

Partners and suppliers

Strong, long-term relationships with partners and suppliers are very important at Hilton. The Group's approach to corporate social responsibility is reflected in the way we behave with our suppliers, which is open, consistent and honest. In the UK the Group follows the Better Payment Practice Code. The Code requires a company to agree the terms of payment with its suppliers, to ensure its suppliers are aware of those terms and to abide by them, The Group policy is also to apply the requirements of the Code in each of its European subsidiaries. At 31 December 2008 the Group's trade creditors represented 46 days of purchases (2007: 41 days), the increase reflecting the timing of the year end which increased the level of trade receivables and payables, there having been no change in supplier payment terms.

Community engagement

Hilton aims to play a positive role in all the communities in which it operates and we encourage employees to become involved with and support the local communities around our sites. We work with and in our communities to support their growth and development and are committed to improving the quality of life of the communities in which we operate. We recognise the social impacts of our business and believe in consultation with local communities about our activities and about the safety and environmental impact of our operations. Small but regular donations are made to local institutions, sponsorship of personal charitable initiatives and cultural events and the group seeks to be a good neighbour in all its locations. We are committed to social responsibility and believe that the success of our businesses will reflect the quality of the relationships we build with our communities and legitimate public interest groups.

Ethical standards

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

A whistle blowing policy has been put in place in 2008, in accordance with which staff can, in confidence, raise any concerns about any actual or potential improprieties, in relation to matters of financial reporting or any other aspect of the Group's businesses.

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

We have audited the Group and parent company financial statements (the "financial statements") of Hilton Food Group plc for the year ended 31 December 2008 which comprise the Consolidated income statement, the Consolidated and Company balance sheets, the Consolidated and Company cash flow statements, the Consolidated and Company statements of changes in equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in the Chairman's statement, the Chief Executive's review, the Group Business review, the Corporate Governance statement and the Corporate Social Responsibility report that is cross referred from the Business review section of the Directors' report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance statement reflects the Company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' report, the unaudited part of the Directors' remuneration report, the Chairman's statement, the Chief Executive's review, the Group Business review, the Corporate Governance statement and the Corporate Social Responsibility report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit 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 statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its profit and cash flows for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008 and of its cash flows for the year then ended;
- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

Belfast

30 March 2009

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

Consolidated income statement for the year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Continuing operations			
Revenue	5	**729,497**	577,734
Cost of sales		**(630,219)**	(495,632)
Gross profit		**99,278**	82,102
Distribution costs		**(7,358)**	(6,299)
Administrative expenses		**(71,710)**	(58,366)
Restructuring and flotation costs		**–**	(1,780)
Operating profit		**20,210**	15,657
Finance income	9	**1,159**	1,433
Finance costs	9	**(4,045)**	(3,416)
Finance costs – net	9	**(2,886)**	(1,983)
Profit before income tax		**17,324**	13,674
Income tax expense	10	**(4,793)**	(4,158)
Profit for the year		**12,531**	9,516
Attributable to:			
Equity holders of the Company		**11,487**	8,820
Minority interest		**1,044**	696
		12,531	9,516
Earnings per share for profit attributable to the equity holders of the Company during the year			
– Basic and diluted (pence)	11	**16.5**	12.7

The notes on pages 36 to 51 are an integral part of these consolidated financial statements.

Consolidated balance sheet as at 31 December 2008

	Notes	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Assets					
Non-current assets					
Property, plant and equipment	13	**51,325**	42,286	**–**	–
Intangible assets	14	**3,671**	3,987	**–**	–
Investments in subsidiary undertakings	15	**–**	–	**102,985**	102,985
Deferred income tax assets	23	**364**	1,273	**–**	–
		55,360	47,546	**102,985**	102,985
Current assets					
Inventories	17	**19,015**	9,654	**–**	–
Trade and other receivables	18	**78,511**	50,993	**404**	–
Current income tax assets		**–**	–	**522**	404
Cash and cash equivalents	19	**25,785**	20,792	**2**	1
		123,311	81,439	**928**	405
Total assets		**178,671**	128,985	**103,913**	103,390
Equity					
Capital and reserves attributable to equity holders of the Company					
Share capital	24	**6,966**	6,966	**6,966**	6,966
Other reserves		**3,987**	896	**–**	–
Retained earnings		**18,232**	12,039	**121**	25
		29,185	19,901	**7,087**	6,991
Reverse acquisition reserve		**(31,700)**	(31,700)	**–**	–
Merger reserve		**919**	919	**71,019**	71,019
		(1,596)	(10,880)	**78,106**	78,010
Minority interest in equity		**1,752**	367	**–**	–
Total equity		**156**	(10,513)	**78,106**	78,010
Liabilities					
Non-current liabilities					
Borrowings	20	**45,417**	50,302	**–**	–
Deferred income tax liabilities	23	**2,186**	1,580	**–**	–
Trade and other payables	22	**–**	264	**–**	–
		47,603	52,146	**–**	–
Current liabilities					
Borrowings	20	**8,940**	6,682	**–**	–
Trade and other payables	21	**120,869**	78,856	**25,807**	25,380
Current income tax liabilities		**1,103**	1,814	**–**	–
		130,912	87,352	**25,807**	25,380
Total liabilities		**178,515**	139,498	**25,807**	25,380
Total equity and liabilities		**178,671**	128,985	**103,913**	103,390

The notes on pages 36 to 51 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board on 30 March 2009 and were signed on its behalf by:

R Watson
Director

N Majewski
Director

Consolidated statement of changes in equity

Group	Notes	Share capital £'000	Other reserves £'000	Retained earnings £'000	Sub total £'000	Reverse acquisition reserve £'000	Merger reserve £'000	Total £'000	Minority interest £'000	Total equity £'000
		Attributable to equity holders of the Company								
Balance at 1 January 2007		200	(102)	29,451	29,549	–	–	29,549	1,288	30,837
Currency translation differences		–	998	–	998	–	–	998	51	1,049
Profit for the year		–	–	8,820	8,820	–	–	8,820	696	9,516
Total recognised income and expense for 2007		–	998	8,820	9,818	–	–	9,818	747	10,565
Dividends paid	12	–	–	(26,232)	(26,232)	–	–	(26,232)	(1,519)	(27,751)
Reverse acquisition of Hilton Foods Limited		6,700	–	–	6,700	(31,700)	–	(25,000)	–	(25,000)
Acquisition of minority shareholding		66	–	–	66	–	919	985	(149)	836
Balance at 31 December 2007		6,966	896	12,039	19,901	(31,700)	919	(10,880)	367	(10,513)
Currency translation differences		**–**	**2,995**	**–**	**2,995**	**–**	**–**	**2,995**	**341**	**3,336**
Profit for the year		**–**	**–**	**11,487**	**11,487**	**–**	**–**	**11,487**	**1,044**	**12,531**
Total recognised income and expense for 2008		**–**	**2,995**	**11,487**	**14,482**	**–**	**–**	**14,482**	**1,385**	**15,867**
Adjustment in respect of employee share scheme		**–**	**96**	**–**	**96**	**–**	**–**	**96**	**–**	**96**
Dividends paid	12	**–**	**–**	**(5,294)**	**(5,294)**	**–**	**–**	**(5,294)**	**–**	**(5,294)**
Balance at 31 December 2008		**6,966**	**3,987**	**18,232**	**29,185**	**(31,700)**	**919**	**(1,596)**	**1,752**	**156**
Company										
Profit for the year		–	–	1,557	1,557	–	–	1,557		
Total recognised income and expense for 2007		–	–	1,557	1,557	–	–	1,557		
Dividends paid	12	–	–	(1,532)	(1,532)	–	–	(1,532)		
Reverse acquisition of Hilton Foods Limited		6,900	–	–	6,900	–	70,100	77,000		
Acquisition of minority shareholding		66	–	–	66	–	919	985		
Balance at 31 December 2007		6,966	–	25	6,991	–	71,019	78,010		
Profit for the year		**–**	**–**	**5,390**	**5,390**	**–**	**–**	**5,390**		
Total recognised income and expense for 2008		**–**	**–**	**5,390**	**5,390**	**–**	**–**	**5,390**		
Dividends paid	12	**–**	**–**	**(5,294)**	**(5,294)**	**–**	**–**	**(5,294)**		
Balance at 31 December 2008		**6,966**	**–**	**121**	**7,087**	**–**	**71,019**	**78,106**		

The notes on pages 36 to 51 are an integral part of these consolidated financial statements.

Consolidated cash flow statement for the year ended 31 December 2008

	Notes	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Cash flows from operating activities					
Cash generated from operations	25	**35,311**	23,591	**–**	–
Interest paid		**(4,912)**	(2,548)	**(1,406)**	(968)
Income tax paid		**(4,711)**	(4,055)	**–**	–
Net cash generated from/(used in) operating activities		**25,688**	16,988	**(1,406)**	(968)
Cash flows from investing activities					
Purchases of property, plant and equipment		**(15,248)**	(10,853)	**–**	–
Proceeds from sale of property, plant and equipment		**192**	4,473	**–**	–
Purchases of intangible assets		**(68)**	(302)	**–**	–
Interest received		**1,158**	1,065	**1**	1
Dividends received		**–**	–	**6,700**	2,500
Net cash (used in)/generated from investing activities		**(13,966)**	(5,617)	**6,701**	2,501
Cash flows from financing activities					
Proceeds from borrowings		**2,915**	47,546	**–**	–
Repayments of borrowings		**(6,312)**	(6,678)	**–**	–
Dividends paid to Company shareholders		**(5,294)**	(26,232)	**(5,294)**	(1,532)
Dividends paid to minority interests		**–**	(1,519)	**–**	–
Reverse acquisition of Hilton Foods Limited		**–**	(25,000)	**–**	–
Net cash used in financing activities		**(8,691)**	(11,883)	**(5,294)**	(1,532)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		**3,031**	(512)	**1**	1
Cash, cash equivalents and bank overdrafts at beginning of the year		**20,792**	20,133	**1**	–
Exchange gains on cash, cash equivalents and bank overdrafts		**1,962**	1,171	**–**	–
Cash, cash equivalents and bank overdrafts at end of the year	19	**25,785**	20,792	**2**	1

The notes on pages 36 to 51 are an integral part of these consolidated financial statements.

Notes to the financial statements for the year ended 31 December 2008

1 General information

Hilton Food Group plc ("the Company") and its subsidiaries (together "the Group") is a specialist retail meat packing business supplying major international food retailers in five European countries. The Company's subsidiaries are listed in note 27.

The Company is a public limited company incorporated and domiciled in the UK. The address of the registered office is 2-8 The Interchange, Latham Road, Huntingdon, Cambridgeshire PE29 6YE. The registered number of the Company is 6165540.

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

These consolidated financial statements were approved for issue on 30 March 2009.

The Company has taken advantage of the exemption in Section 230 Companies Act 1985 not to publish its individual income statement and related notes. Profit for the year dealt with in the income statement of Hilton Food Group plc amounted to £5,390,172 (2007: £1,557,402).

2 Summary of significant accounting policies

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

Basis of preparation

The consolidated financial statements of Hilton Food Group plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS), IFRIC interpretations and the Companies Act 1985 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on the going concern basis under the historical cost convention.

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

Basis of consolidation

These consolidated financial statements comprise the financial statements of Hilton Food Group plc ("the Company") and its subsidiaries, together, ("the Group") drawn up to 31 December 2008. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

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

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

International Financial Reporting Standards

(a) Standards, amendments and interpretations effective in 2008

IFRIC 11, 'IFRS 2 – Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's financial statements.

(b) Standards, amendments and interpretations effective in 2008 but not relevant to the Group or Company's operations

IFRIC 12, 'Service concession arrangements'

IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'

(c) Standards, amendments and interpretations to existing standards that are not yet effective, are subject to EU endorsement and have not been early adopted by the Group

IAS 1 (revised), Presentation of financial statements' (effective 1 January 2009). The amendments provide a number of presentational changes to the financial statements including a new statement of comprehensive income.

IAS 23 (amendment), 'Borrowing costs' (effective 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to an acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Group and Company currently have no such qualifying assets.

IAS 27 (revised), 'Consolidated and separate financial statements' (effective 1 July 2009) and IFRS 3 (revised), 'Business combinations' (effective 1 July 2009). The amendment to IAS 27 concerns accounting for transactions with non-controlling interests. IFRS 3 (revised) concerns accounting for acquisitions. The Group will apply these revised standards prospectively to transactions with non-controlling interests and business combinations from 1 January 2010 subject to EU endorsement.

IFRS 8, 'Operating segments' (effective 1 January 2009). It requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is being assessed in detail by management in advance of future implementation.

IFRS 2 (amendment), 'Share-based payment' (effective 1 January 2009). It clarifies vesting conditions and cancellations and is not expected to have a material impact on the Group's or Company's financial statements.

2 Summary of significant accounting policies (continued)

International Financial Reporting Standards (continued)

(d) Standards, amendments and interpretations to existing standards that are not yet effective and not relevant for the Group's operations

IAS 32 (amendment), 'Financial Instruments: presentation' and IAS 1 (amendment), 'Presentation of financial statements', Puttable financial instruments and obligations arising on liquidation' (effective 1 January 2009)

IFRS 1 (amendment), 'First time adoption of IFRS' and IAS 27, 'Consolidated and separate financial statements' (effective 1 January 2009)

IFRIC 13, 'Customer loyalty programmes' (effective 1 July 2008)

IFRIC 15, 'Agreements for the construction of real estates' (effective 1 January 2009)

IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective 1 October 2008)

Revenue recognition

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

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

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

Segment reporting

A business segment is a distinguishable component of the Group that is engaged either in providing products or services and a geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment, which is subject to risks and rewards that are different from those other segments.

Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

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

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

Notes to the financial statements for the year ended 31 December 2008 Continued

2 Summary of significant accounting policies (continued)

Property, plant and equipment

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

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

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

Land is not depreciated.

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

Intangible assets

(a) Goodwill

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

(b) Computer software

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

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

(c) Product licences

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

Impairment of non-financial assets

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

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

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. It 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.

2 Summary of significant accounting policies (continued)

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When a trade and other receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

Cash and cash equivalents

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

Share capital and reserves

Ordinary shares are classified as equity.

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

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

Trade and other payables

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.

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.

Leases

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

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

Current and deferred income tax

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

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

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

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

Pensions and other post-employment benefits

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

In the Netherlands and Sweden the Group contributes to industry-wide defined benefit schemes for its employees. These schemes are national industry-wide schemes and they will not provide contributing companies with sufficient information to allow each company to ascertain its share of the schemes' assets and liabilities. Accordingly the Group has accounted for these schemes as defined contribution schemes. The contributions are recognised as an employee benefit expense when they are due.

Notes to the financial statements for the year ended 31 December 2008
Continued

2 Summary of significant accounting policies (continued)

Share-based compensation

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

Grants

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

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

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

Dividend distribution

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

Significant items

Significant items are those which are separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance.

3 Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and price 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.

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

(iii) Cash flow interest rate risk
The Group's interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group seeks to manage exposure to interest rate risk through interest rate caps over the majority of its long term borrowings.

(iv) Sensitivity analysis

Group	2008 Income statement £'000	2008 Equity £'000	2007 Income statement £'000	2007 Equity £'000
Annual effect of a change in Group-wide interest rates by 0.5%	**+128**	**+128**	+167	+167
	–128	**–128**	–142	–142
Annual effect of a change in exchange rates to the GBP £ by 10%	**+1,196**	**+2,702**	+823	+1,229
	–979	**–2,211**	– 748	– 1,117

(b) Credit risk

The Group is exposed to credit risk in respect of credit exposures to its retail customer partners and banking arrangements. The Group 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 from retail customer partners is £70.7m (2007: £46.4m) as stated in note 18.

(c) Liquidity risk

The Group has significant cash and cash equivalents and maintains a mix of long-term and short term debt finance; accordingly the Group's exposure to liquidity risk is not considered significant. The Board regularly reviews its banking facilities and cash flow forecasts. The maturity of the Group's financial liabilities is stated in note 20.

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.

3 Financial risk management (continued)

Capital risk management (continued)

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 the gearing ratio. This ratio is calculated as net debt divided by EBITDA. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown on the consolidated balance sheet) less cash and cash equivalents. EBITDA is calculated as operating profit before significant non-recurring items, interest, tax, depreciation and amortisation. As the gearing ratio is well within acceptable limits and continuing to improve no further action has been required.

Fair value estimation

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

4 Critical accounting estimates and judgements

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

During the years ended 31 December 2007 and 31 December 2008 there were no critical accounting estimates or judgements in relation to the application of the Group's accounting policies.

5 Segmental information

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Based on an analysis of risks and returns, the Directors consider that the Group has only one identifiable business segment, wholesaling of meat. The 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.

Based on an analysis of risks and returns, the Directors consider that the Group has two identifiable geographical segments. The main geographical area in which the Group's operations are carried out is Western Europe. The other geographical area that the Group's operations are carried out in does not meet the definition of a reportable segment in IAS 14 and therefore the revenues, results, assets and liabilities arising from the operations carried out in this geographical area have been included in 'Other'.

Consequently the Group's primary reporting format is by geographical segmentation. Secondary format disclosures are not appropriate. The analyses in the tables below are based on the location of customers.

The segment results are as follows:

	Western Europe £'000	Other £'000	Unallocated £'000	2008 Total £'000	Western Europe £'000	Other £'000	Unallocated £'000	2007 Total £'000
Total segment revenue	679,676	49,821	–	729,497	551,836	25,898	–	577,734
Operating profit/segment result	18,953	1,257	–	20,210	16,781	656	(1,780)	15,657
Finance income				1,159				1,433
Finance costs				(4,045)				(3,416)
Finance costs – net				(2,886)				(1,983)
Profit before income tax				17,324				13,674
Income tax expense				(4,793)				(4,158)
Profit for the year				12,531				9,516

Other segment items included in the income statement are as follows:

	Western Europe £'000	Other £'000	2008 Total £'000	Western Europe £'000	Other £'000	2007 Total £'000
Depreciation	10,752	1,230	11,982	8,802	828	9,630
Amortisation	614	282	896	1,178	186	1,364

The segment assets and liabilities at 31 December and capital expenditure for the year then ended are as follows:

	Western Europe £'000	Other £'000	Unallocated £'000	2008 Total £'000	Western Europe £'000	Other £'000	Unallocated £'000	2007 Total £'000
Total assets	161,917	16,390	364	178,671	116,273	11,439	1,273	128,985
Total liabilities	(110,575)	(10,294)	(57,646)	(178,515)	(72,067)	(7,053)	(60,378)	(139,498)
Capital expenditure	14,103	1,213	–	15,316	10,410	745	–	11,155

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, trade and other receivables and cash and cash equivalents. Unallocated assets comprise deferred income tax assets.

Segment liabilities comprise operating liabilities. Unallocated liabilities comprise deferred income tax liabilities, current income tax liabilities and borrowings.

Notes to the financial statements for the year ended 31 December 2008
Continued

6 Auditor's remuneration

Services provided by the Company's auditor and its associates

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

Group	2008 £'000	2007 £'000
Fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements	133	110
Fees payable to the Company's auditor and its associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation	119	94
– Other services pursuant to legislation	43	57
– Services relating to taxation	132	39
– Services relating to restructuring and flotation	–	362
– All other services	35	32
Total fees payable to the Company's auditor and its associates	462	694

Fees payable to other auditors in respect of services provided to subsidiary undertakings	61	54

7 Expenses by nature

Group	2008 £'000	2007 £'000
Changes in inventories of finished goods and work in progress	7,875	118
Raw materials and consumables used	583,159	461,726
Employee benefit expense (note 8)	43,327	36,209
Depreciation, amortisation and impairment charges – owned assets	12,694	10,810
Depreciation, amortisation and impairment charges – leased assets	184	184
Release of deferred income in respect of government grants	(127)	(109)
Repairs and maintenance expenditure on property, plant and equipment	9,208	7,827
Trade receivables – impairment	88	203
Hire of plant and machinery	683	595
Transportation expenses	7,292	5,758
Operating lease payments	5,036	3,879
Foreign exchange (gains)	(576)	(338)
Other expenses	40,444	33,435
Total cost of sales, distribution costs and administrative expenses	709,287	560,297

8 Employee benefit expense

Group	2008 £'000	2007 £'000
Staff costs during the year		
Wages and salaries	35,872	29,674
Social security costs	6,167	5,699
Share options granted to Directors and senior employees	96	–
Pension costs – defined contribution plans	1,192	836
	43,327	36,209

	Number	Number
Average number of persons employed (including Executive Directors) during the year by activity		
Production	1,217	1,104
Administration	300	283
	1,517	1,387

Group	Directors' emoluments 2008 £'000	Directors' emoluments 2007 £'000	Key management compensation (including Directors) 2008 £'000	Key management compensation (including Directors) 2007 £'000
Salaries and short-term employee benefits	2,205	1,425	3,338	2,391
Pension costs – defined contribution plans	111	105	198	198
	2,316	1,530	3,536	2,589

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

There are no other employees of the Company other than the Directors. Employee expense of the Company amounted to £nil (2007: £nil).

9 Finance income and costs

Group	2008 £'000	2007 £'000
Finance income		
Interest income on short-term bank deposits	**1,111**	837
Exchange gains on foreign currency borrowings	**–**	160
Interest on income taxes	**48**	436
Finance income	**1,159**	1,433
Interest expense		
Bank borrowings	**(3,730)**	(3,131)
Finance leases	**(226)**	(198)
Other interest expense	**(89)**	(87)
Finance costs	**(4,045)**	(3,416)
Finance costs – net	**(2,886)**	(1,983)

10 Income tax expense

Group	2008 £'000	2007 £'000
Current income tax		
Current tax on profits for the year	**4,460**	4,028
Adjustments to tax in respect of previous years	**(1,059)**	(37)
Total current tax	**3,401**	3,991
Deferred income tax		
Origination and reversal of temporary differences	**557**	185
Adjustments to tax in respect of previous years	**835**	(18)
Total deferred tax	**1,392**	167
Income tax expense	**4,793**	4,158

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 28.5% (2007: 30%) applied to profits of the consolidated entities as follows:

	2008 £'000	2007 £'000
Profit before income tax	**17,324**	13,674
Tax calculated at the standard rate of UK Corporation Tax 28.5% (2007: 30%)	**4,937**	4,102
Expenses not deductible for tax purposes	**215**	265
Adjustments to tax in respect of previous years	**(554)**	(55)
Profits taxed at rates other than 28.5% (2007: 30%)	**(585)**	(154)
Withdrawal of UK Industrial Buildings Allowances	**854**	–
Other	**(74)**	–
Income tax expense	**4,793**	4,158

11 Earnings per share

Basic and diluted

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

Group	2008	2007
Profit attributable to equity holders of the Company (£'000)	**11,487**	8,820
Weighted average number of ordinary shares in issue (thousands)	**69,657**	69,657
Basic and diluted earnings per share (pence)	**16.5**	12.7
Basic and diluted earnings per share before restructuring and flotation costs of £nil (2007: £1,780,000 less tax relief of £150,000) (pence)	**16.5**	15.0

12 Dividends

Group	2008 £'000	2007 £'000
Interim dividend paid 2.4p per ordinary share (2007: 2.2p)	**1,672**	1,532
Final dividend in respect of 2007 paid 5.2p per ordinary share	**3,622**	–
Other dividend paid on ordinary shares (2007: 35.5p) per ordinary share	**–**	24,700
Total dividends paid	**5,294**	26,232

The Directors propose a final dividend of 5.74p per share payable on 3 July 2009 to shareholders who are on the register at 5 June 2009. This final dividend, amounting to £4.0m has not been recognised as a liability in these consolidated financial statements.

13 Property, plant and equipment

Group	Land and buildings (including leasehold improvement) £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2007	20,350	56,155	6,067	286	82,858
Exchange adjustments	561	3,320	263	10	4,154
Additions	2,641	6,631	1,241	151	10,664
Disposals	(4,000)	(431)	(75)	(78)	(4,584)
Transfers	(2,131)	2,105	26	–	–
At 31 December 2007	17,421	67,780	7,522	369	93,092
Accumulated depreciation					
At 1 January 2007	4,822	31,166	3,205	89	39,282
Exchange adjustments	139	1,870	146	3	2,158
Charge for the year	1,021	7,406	1,110	93	9,630
Disposals	–	(184)	(28)	(52)	(264)
Transfers	3	(3)	–	–	–
At 31 December 2007	5,985	40,255	4,433	133	50,806
Net book amount					
At 31 December 2007	11,436	27,525	3,089	236	42,286
Cost					
At 1 January 2008	**17,421**	**67,780**	**7,522**	**369**	**93,092**
Exchange adjustments	**2,380**	**10,747**	**664**	**9**	**13,800**
Additions	**2,982**	**11,257**	**1,001**	**8**	**15,248**
Disposals	**(52)**	**(908)**	**(79)**	**(9)**	**(1,048)**
At 31 December 2008	**22,731**	**88,876**	**9,108**	**377**	**121,092**
Accumulated depreciation					
At 1 January 2008	**5,985**	**40,255**	**4,433**	**133**	**50,806**
Exchange adjustments	**604**	**6,581**	**375**	**2**	**7,562**
Charge for the year	**1,285**	**9,436**	**1,180**	**81**	**11,982**
Disposals	**–**	**(547)**	**(32)**	**(4)**	**(583)**
At 31 December 2008	**7,874**	**55,725**	**5,956**	**212**	**69,767**
Net book amount					
At 31 December 2008	**14,857**	**33,151**	**3,152**	**165**	**51,325**

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

	2008 £'000	2007 £'000
Cost – capitalised finance leases	**3,985**	3,188
Accumulated depreciation	**(986)**	(667)
Net book amount	**2,999**	2,521

Included in assets held under finance leases are land and buildings with a net book amount of £2,958,000 (2007: £2,437,000) and plant and machinery with a net book amount of £41,000 (2007: £84,000).

Land and buildings are held under short leaseholds.

Details of bank borrowings secured on assets of the Group are given in note 20.

14 Intangible assets

Group	Product licences £'000	Computer software £'000	Goodwill £'000	Total £'000
Cost				
At 1 January 2007	6,149	2,149	–	8,298
Exchange adjustments	584	196	–	780
Additions	–	302	836	1,138
At 31 December 2007	6,733	2,647	836	10,216
Accumulated amortisation				
At 1 January 2007	3,941	410	–	4,351
Exchange adjustments	451	63	–	514
Charge for the year	990	374	–	1,364
At 31 December 2007	5,382	847	–	6,229
Net book amount				
At 31 December 2007	1,351	1,800	836	3,987
Cost				
At 1 January 2008	**6,733**	**2,647**	**836**	**10,216**
Exchange adjustments	**1,987**	**299**	**–**	**2,286**
Additions	**–**	**68**	**–**	**68**
At 31 December 2008	**8,720**	**3,014**	**836**	**12,570**
Accumulated amortisation				
At 1 January 2008	**5,382**	**847**	**–**	**6,229**
Exchange adjustments	**1,669**	**105**	**–**	**1,774**
Charge for the year	**400**	**496**	**–**	**896**
At 31 December 2008	**7,451**	**1,448**	**–**	**8,899**
Net book amount				
At 31 December 2008	**1,269**	**1,566**	**836**	**3,671**

The net book amount of goodwill relates entirely to a 2.5% shareholding in Hilton Food Group (Europe) Limited, the cash generating unit (CGU). 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 pre-tax cash flow projections covering a five year period. The growth rate used is not more than 10%, being 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 of 11%. This approximates to applying a pre-tax discount rate to pre-tax cash flows.

15 Investments in subsidiary undertakings

Company	**2008 £'000**	2007 £'000
At 1 January	**102,985**	–
Additions in the year		
Reverse acquisition of Hilton Foods Limited – at fair value	**–**	102,000
Acquisition of minority shareholding in Hilton Food Group (Europe) Limited – at fair value	**–**	985
At 31 December	**102,985**	102,985

Details of subsidiary undertakings are shown in note 27.

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

Financial statements

Notes to the financial statements for the year ended 31 December 2008
Continued

16 Financial instruments by category

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

Group Assets as per balance sheet	Loans and receivables 2008 £'000	 2007 £'000
Trade and other receivables	**78,511**	50,993
Cash and cash equivalents	**25,785**	20,792
	104,296	71,785

Group Liabilities as per balance sheet	Other financial liabilities at amortised cost 2008 £'000	 2007 £'000
Trade and other payables	**120,869**	79,120
Borrowings	**54,357**	56,984
	175,226	136,104

In addition to the above amounts owed to the Company by Group undertakings of £404,000 (2007: £nil) are classified as 'loans and receivables' and amounts owed by the Company to Group undertakings of £25,341,000 (2007: £25,380,000) are classified as 'other financial liabilities at amortised cost'.

17 Inventories

Group	2008 £'000	2007 £'000
Raw materials and consumables	**14,046**	7,576
Finished goods and goods for resale	**4,969**	2,078
	19,015	9,654

The cost of inventories recognised as an expense and included in cost of sales amounted to £591,034,000 (2007: £461,844,000).

The Group charged £652,000 in respect of inventory write-downs in the year ended 31 December 2008 (2007: release of £164,000). The amount charged has been included in cost of sales in the income statement.

18 Trade and other receivables

Group	 2008 £'000	Group 2007 £'000	 2008 £'000	Company 2007 £'000
Trade receivables	**70,079**	46,589	**–**	–
Less: provision for impairment of trade receivables	**(69)**	(197)	**–**	–
Trade receivables – net	**70,010**	46,392	**–**	–
Amounts owed by Group undertakings	**–**	–	**404**	–
Amounts owed by related parties (see note 28)	**642**	–	**–**	–
Other receivables	**4,125**	1,724	**–**	–
Prepayments	**3,734**	2,877	**–**	–
	78,511	50,993	**404**	–

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

Currency	 2008 £'000	Group 2007 £'000	 2008 £'000	Company 2007 £'000
UK Pound	**15,691**	8,566	**404**	–
Swedish Krona	**18,924**	14,320	**–**	–
Euro	**38,699**	25,466	**–**	–
Polish Zloty	**5,197**	2,641	**–**	–
	78,511	50,993	**404**	–

The fair values of trade and other receivables are the same as their carrying value. The maximum exposure to credit risk at 31 December 2008 is the fair value of each class of receivable mentioned above.

Trade receivables impaired and the amount of the impairment provision as at 31 December 2008 was £69,000 (2007: £197,000). The individually impaired receivables mainly relate to invoices which are in dispute. It was assessed that a portion of the receivables is expected to be recovered. The trade receivables that were impaired were all overdue by more than six months. There were no other trade receivables which were overdue. The other classes within trade and other receivables do not contain impaired assets. The trade receivables which are not impaired or overdue are all less than 30 days old.

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

Group	2008 £'000	2007 £'000
At 1 January	**197**	65
Provision for receivables impairment	**88**	203
Receivables written off during the year as uncollectable	**(278)**	(86)
Exchange differences	**62**	15
At 31 December	**69**	197

19 Cash and cash equivalents

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Cash at bank and on hand	**25,785**	20,792	**2**	1

Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Cash at bank and on hand	**25,785**	20,792	**2**	1
Bank overdrafts	**–**	–	**–**	–
	25,785	20,792	**2**	1

20 Borrowings

Group	2008 £'000	2007 £'000
Current		
Bank borrowings	**8,820**	6,577
Finance lease liabilities	**120**	105
	8,940	6,682
Non-current		
Bank borrowings	**41,825**	47,445
Finance lease liabilities	**3,592**	2,857
	45,417	50,302
Total borrowings	**54,357**	56,984

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

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

Currency	2008 £'000	2007 £'000
UK Pound	**42,733**	46,935
Swedish Krona	**2,265**	3,642
Euro	**9,359**	6,407
	54,357	56,984

The Group reorganisation loan of £42,717,000 (2007: £46,880,000) is repayable in quarterly instalments by 28 February 2013. Interest is charged at LIBOR plus 0.75% to 1.25% subject to interest rate caps over £30m of borrowings where LIBOR is capped at 6.5%. Other bank borrowings are repayable by 2010 to 2013 with interest charged at bank base rate plus 0.7% to 1%.

Bank borrowings totalling £50,645,000 (2007: £54,022,000) are secured by fixed and floating charges over the assets of the individual Group borrowers and through joint and several guarantees from each active Group undertaking.

The contractual maturity profile of the Group's borrowings is as follows:

Group	2008 £'000	2007 £'000
Less than one year	**11,253**	9,942
Between one and two years	**9,478**	9,921
Between two and five years	**37,199**	22,534
Later than five years	**4,998**	30,537
	62,928	72,934

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

Group	Minimum lease payments 2008 £'000	Minimum lease payments 2007 £'000	Present value 2008 £'000	Present value 2007 £'000
No later than one year	**374**	305	**120**	105
Later than one year and no later than five years	**1,516**	1,128	**518**	362
Later than five years	**4,498**	3,867	**3,074**	2,495
	6,388	5,300	**3,712**	2,962
Future finance charges on finance leases	**(2,676)**	(2,338)	**–**	–
Present value of finance lease liabilities	**3,712**	2,962	**3,712**	2,962

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

The fair value of the Group's finance lease liabilities is £5,671,000 (2007: £3,700,000). The fair values are based on cash flows discounted using a rate based on the borrowing rate of 1.5% (2007: 4%).

21 Trade and other payables

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Trade payables	**79,876**	54,545	**–**	–
Amounts owed to Group undertakings	**–**	–	**25,341**	25,380
Amounts owed to related parties (see note 28)	**15,757**	11,079	**–**	–
Social security and other taxes	**2,855**	406	**–**	–
Deferred consideration	**313**	389	**–**	–
Accruals and deferred income	**22,068**	12,437	**466**	–
	120,869	78,856	**25,807**	25,380

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

22 Trade and other payables (non-current liabilities)

Group	2008 £'000	2007 £'000
Deferred consideration	**–**	220
Accruals and deferred income	**–**	44
	–	264

The fair value of non-current trade and other payables is not materially different to their carrying value.

23 Deferred income tax

The movement in deferred income tax assets and liabilities during the year is as follows:

Group	Accelerated capital allowances £'000	Other timing differences £'000	Deferred income tax assets total £'000	Deferred income tax liabilities Accelerated: capital allowances £'000
At 1 January 2007	1,219	–	1,219	(1,300)
Exchange differences	–	–	–	(59)
Income statement charge	(38)	92	54	(221)
At 31 December 2007	1,181	92	1,273	(1,580)
Exchange differences	22	–	22	(145)
Income statement charge	(891)	(40)	(931)	(461)
At 31 December 2008	312	52	364	(2,186)

24 Share capital

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Authorised				
100,000,000 ordinary shares of 10p each	**10,000**	10,000	**10,000**	10,000
Allotted and fully paid				
69,656,667 ordinary shares of 10p each	**6,966**	6,966	**6,966**	6,966

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

Executive share option scheme

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

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

	2008 Exercise price (pence)	2008 Options ('000)	2007 Exercise price (pence)	2007 Options ('000)
At 1 January	**–**	**–**	–	–
Granted 12 May 2008	**199.5**	**1,279**	–	–
At 31 December	**199.5**	**1,279**	–	–

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was 41p per option. The significant inputs into the model were the exercise price shown above, volatility of 30% based on a comparison of similar listed companies, dividend yield of 4%, an expected option life of four years, and an annual risk-free interest rate of 4.4%. See note 8 for the total expense recognised in the income statement for share options granted to Directors and senior employees.

Notes to the financial statements for the year ended 31 December 2008
Continued

25 Cash generated from operations

Group	2008 £'000	2007 £'000
Profit before income tax	**17,324**	13,674
Adjustments for:		
– Depreciation	**11,982**	9,630
– Amortisation of intangible assets	**896**	1,364
– Loss on disposal of property, plant and equipment	**273**	36
– Finance costs – net	**2,886**	1,983
– Amortisation of government grants	**(153)**	(104)
– Adjustment in respect of employee share scheme	**96**	–
Changes in working capital:		
– Inventories	**(7,875)**	442
– Trade and other receivables	**(17,573)**	(5,490)
– Prepaid expenses	**(413)**	(1,295)
– Trade and other payables	**20,795**	4,914
– Accrued expenses	**7,073**	(1,563)
Cash generated from operations	**35,311**	23,591

The parent company has no operating cash flows.

26 Commitments

(a) Capital commitments

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

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Property, plant and equipment	**84**	472	**–**	–

(b) Operating lease commitments

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

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

	Land and buildings		Plant and equipment	
Group	2008 £'000	2007 £'000	2008 £'000	2007 £'000
No later than one year	**4,939**	4,185	**631**	525
Later than one year and no later than five years	**10,515**	11,265	**981**	1,196
Later than five years expiring 2013 to 2023	**6,799**	8,627	**–**	32
	22,253	24,077	**1,612**	1,753

27 Subsidiary undertakings

The principal subsidiary undertakings of the Group at 31 December 2008 were:

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

All undertakings prepare accounts to 31 December and are included in the Company's consolidated financial statements. The Company's voting rights in its subsidiary undertakings are the same as its effective interest in its subsidiary undertakings.

28 Related party transactions and ultimate controlling party

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

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

Group	Sales 2008 £'000	Sales 2007 £'000	Purchases 2008 £'000	Purchases 2007 £'000
Hilton Meats (International) Limited	**642**	–	**73,281**	70,097
Romford Wholesale Meats Limited	**–**	–	**44,344**	42,311
RWM Dorset Limited	**–**	–	**24,218**	16,678
Foyle Food Group Limited	**–**	–	**36,413**	35,384

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

Group	Owed from related parties 2008 £'000	Owed from related parties 2007 £'000	Owed to related parties 2008 £'000	Owed to related parties 2007 £'000
Hilton Meats (International) Limited	**642**	–	**6,735**	3,908
Romford Wholesale Meats Limited	**–**	–	**4,259**	2,458
RWM Dorset Limited	**–**	–	**1,139**	1,412
Foyle Food Group Limited	**–**	–	**3,624**	3,301
	642	–	**15,757**	11,079

The ultimate shareholders of all of the above companies have an interest in the share capital of the Company.

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

Company	2008 £'000	2007 £'000
Hilton Foods Limited – dividend received	**6,700**	2,500
Hilton Foods Limited – interest expense	**1,833**	1,348
Hilton Meats (Retail) Limited – tax on group relief	**404**	–

At the year end £25,341,000 (2007: £25,380,000) was owed to Hilton Foods Limited and £404,000 (2007: £nil) was owed by Hilton Meats (Retail) Limited.

Registered office and advisors

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

Advisors
Corporate broker
Panmure Gordon
155 Moorgate
London
EC2M 6XB

Legal advisor
Taylor Wessing
5 New Street Square
London
EC4A 3TW

Independent auditors
PricewaterhouseCoopers LLP
Registered Auditors and Chartered Accountants
Waterfront Plaza
8 Laganbank Road
Belfast
BT1 3LR

Registrar
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Financial Public Relation
Citigate Dewe Rogerson
3 London Wall Buildings
London
EC2M 5SY

Bankers
Ulster Bank Limited
Donegall Square East
Belfast
BT1 5HD

Svenska Handelsbanken AB
721 03 Vasteras
Sweden

Designed and produced by Radley Yeldar. **www.ry.com**

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

www.hiltonfoodgroupplc.com