

THE PENRITH FARMERS' & KIDD'S PLC

MINUTES OF THE 143RD ANNUAL GENERAL MEETING OF THE COMPANY HELD ON THURSDAY 9TH MAY 2019 AT 11 AM AT THE NORTH LAKES HOTEL, PENRITH

Present

Directors: Mr J Rowlands (Chairperson), Mr S Lancaster (Managing Director), Mr S Dunn, Mr J Wilson, Mrs K Milbourn and Mrs R Lightfoot.

Auditors/Solicitors: Mr P Ellwood and Mr M Welsh - robinson+co, Chartered Accountants, Mr A Hill - Baines Wilson LLP, Solicitors

Shareholders: Mr A Atkinson, Mr A M Bowman, Mr S J Brough, Mr R D Calrow, Mr G Cartmell, Mr R L Good, Mr G W Hogarth, Mrs J M James, Mr J H Johnston, Mr J D Kay, Mr I C Lancaster, Mr A Makepeace, Mr G Monkhouse, Ms A F Strong, Mr N Stuart, Mr T V Sykes, Mr I A Turnbull, Mr M W Veitch, Mr S E Veitch, Mr C S Walker, Mr G M Wilson.

Proxies: Mr I Bolton (for Rulegale Nominees Ltd), Mr G Cartmell (for Mrs A Cartmell), Mr M S Veitch (for Mrs M S Veitch).

Apologies for Absence: Mr B Wharam.

In attendance: Mrs A Sheridan, Mrs J Mitchell, Mr J Webb (Company Secretary), Mrs L Lancaster and Mr B Rowlands.

Introduction by John Rowlands (JR)

Welcome to the 143rd Annual General meeting of Penrith Farmers' and Kidd's plc or PFK as we are widely known as today. Before I introduce myself, I would like to say Bernard Wharam, one of our non-executive directors can't be with us today and sends his apologies. His father was taken critically ill last night and he has had to go down south to be able to take time to be at his bedside which is why Bernard couldn't be here today.

So, I am John Rowlands for those of you who don't know me, I'm the new Chair of PFK. I was born in Whitehaven. I am a serial entrepreneur. I built a Company from nothing to £7 million and sold it two years ago and I built a property Company with over £3 million worth of assets so I believe I have a proven track record in business.

Approximately four years ago I was interviewed by Stephen and the then Chair, Robert Good, who is with us today. I knew a bit about PFK and Stephen told me of his long and short-term goals that he wanted to do at PFK and I knew I wanted to become part of the journey. When they finally offered me the job as a non-executive director, I accepted immediately. I knew it would be hard to implement change and instil new ideas whilst growing and protecting the core business that is there at PFK today but we are and will continue to do that.

Since joining the Board, I have become a shareholder. I have put my money where my mouth is and I have bought 9,475 shares.

I would like to thank Jeanette Brown, she is not with us today, who handed over the Chairman's role to myself in 2018 and for her years of service at the Company.

I was honoured when the Board voted me on as the new Chair. The role gives me an opportunity to get more involved and work closely with Stephen and the executive team.

As you are aware, 2018 was a tough year for the Company but we did achieve commercial employment planning consent over the land owned, which has now been branded Eden 41. I don't know whether any of you have seen the literature produced on it.

This success has enhanced the value of the Company's assets in very challenging times. We will keep you advised, obviously, of further progress with Junction 41/E41 in due course.

Turning to the current year, all of us know how difficult trading conditions have been in the UK. It's not an excuse, it's a national fact, we don't have to go too far to watch the TV to understand that. Stephen and the Board are working on new business strategies whilst making sure the current business continues to be as effective as possible.

Undoubtedly, the extension of the Brexit negotiation period is causing further uncertainty which will continue to downgrade any performance to the half and full years trading. We hope, as a business, the uncertainty regarding Brexit will come to an end as soon as possible with the expectation that more conventional trading will then resume.

As a Board, we are reassured that we have the best people in place to steer the Company through challenging times, not least, the recent appointment of Lynne Lancaster who is with us today (bit of a wave there, thank you). Lynne has recently taken the role as Head of Estate Agency at PFK. Prior to joining the Company, she was with Cumberland Building Society and she played a key part in shaping the business into its current successful hybrid model.

There have also been changes on the Board with Jeanette Brown's departure. Stephen Dunn joined the Board and brings a wealth of financial experience. He is little old (laughter).

The majority of Stephen's career (some 36 years) was with the Accountancy firm KPMG. Stephen is a qualified Chartered Accountant, Chartered Tax Adviser and Chartered Wealth Manager.

I would like to introduce Stephen to say a few words about yourself.

Stephen Dunn (SD)

SD - Thanks very much John, very kind. As John said, I spent my full-time working life at KPMG from University to retirement. I was a practising accountant and, in that time, it was mainly audit but also covered a ten year period as a Corporate Finance Partner and I also did something called forensic accounting. I was based in Preston but had a surprising geographic reach.

Some of the Companies quite local were my clients so, the owners of this very building for example were my clients, the owners of Rheged across the roundabout were my clients, the owners of Ullswater Steamers just down the road were clients amongst others. I finished at KPMG three years ago. Since then I have busied myself, tried to keep my mind active and challenged. (Maurice Bowman asked SD to speak a little louder). SD thanks for saying that, I am naturally softly spoken. If I do drift off again, just give me a wave and I'll raise my voice.

I was just talking about my current background since leaving KPMG. I have busied myself, keeping myself challenged and interested. I spend about one day a week as a director of a photographic Company that has businesses in London and Manchester, having led them through a management buyout about three years ago. They provide services to the likes of Marks and Spencer and John Lewis, a very, very challenging environment at the moment.

I am also a corporate finance adviser to The Westmorland Group, you probably know them for operating the motorway services areas, the nearest one is Tebay just down the road.

I also Chair a remuneration committee and, of course, this is my latest adventure, let's call it that. Like John, when I was approached by Stephen I realised that this was a Company with quite an interesting development potential and its forward thinking attitude and again it was something that I very much wanted to be a part of so what I aim to do is to bring my financial expertise to help the Company during that period of development. So that's me.

JR - Thank you, Stephen

So on with the formal business.

Firstly, does anyone require the Company Secretary to formally read the notice of the meeting or can we take it as being read? Any objectors?

The board will be happy to take questions when I come to the five resolutions but we have to take questions on each resolution. We have some questions prior and those questions will come out in the resolution when it comes up.

Resolution 1

JR -To receive the Company's annual accounts for the financial year ended 31 December 2018 together with the Directors' and Auditors' reports on these accounts.

As I said, we have two questions on these already and I will hand over to Stephen Dunn who will read the questions and also provide the response.

SD – Hello again. I am answering these next two questions because they are more of a sort of financial technical type of content. Obviously, anything operational would be down to Stephen Lancaster and the executive team but I was allocated these, I think I was out of the room at the time!

SD - Question 1

The first one, I'll paraphrase the question if you don't mind John. In the accounts this year, we have got a 12-month period which followed a 16-month period which makes comparison quite difficult between the two years. It would have been helpful, as our questioner points out, that had we provided some information that would have given you the ability to compare things on a like for like basis, which is an excellent point and I wish that we had thought of it in advance because we could have put it in the Chairman's statement. However, we didn't do that, so what Joe has kindly done, the Company Secretary, is produce a proforma which compares this last 12 months with the actual 12 months last year and Joe those are available?

Joseph Webb (JW) – they can be available at the end of the meeting.

SD – But, obviously, the purpose of the question was just so that a comparison could be made. Let me take you through very briefly what that shows. It actually shows a remarkably flat.

Tim Sykes (TS) - asked if they could have these in front of them whilst SD is talking).

JW distributed and SD advised he would talk through the highlights.

SD - The turnover was 2.7 million from the accounts. That's £15,000 up on the last year so that represents just over one-half percent increase. None of these figures are very great, which is the point I am wanting to make. At gross margin line, the increase in gross margin is just over one third of 1% higher than last year so, again, remarkably similar. Admin expenses are about 1% higher than they were last year and, overall, rental at £266,000 is about £2,500 down on last year but, overall, because this year there was the benefit of the revaluation surplus, largely because of the increase in value of the Eden 41 site, the operating profit is slightly more than double, the position that it was last year.

Stephen Brough (SB) asked - does that mean that the underlying profit is down?

SD – I didn't quite hear the question.

SB – you said the profit was up, remove the valuation which is more good luck than good management, the actual profit is down.

SD – I have not worked out the actual number but if you take those ups and downs so the turnover was up £15,000, the gross margin was up about £8k, admin expenses were up about £25k, something like that, the rent was down about £2,500. If you add all those, there would be a slight reduction. Do the maths for me but they were supplemented by the revaluation surplus.

JR – Junction 41 wasn't good luck, it was hard work let's not forget that and hopefully next year we should see more uplift in Junction 41.

Graham Monkhouse (GM) – Just explain that to us.

JR – The Junction 41 team put one hell of an effort in there to get planning permission in a very challenging environment. The work they had to do in the step foot process in getting planning permission on our land was rigorous and hard so a lot of time and effort went in to raising the value of that land to where it is now and, hopefully, in the future with a fair wind we should be raising the game.

GM – Is that not their job?

JR – Absolutely, the point that was being made was that it wasn't good luck. That's the only point I am making is that it wasn't good luck.

SD – If I may, I will move onto the second question.

Gordon Cartmell (GC) – May I ask a supplementary question. It is very difficult, obviously, to get it at short notice and then try to make a comparison but does it imply that in the four months (let me get the right year) to December 2016 we made £100k, is that what he is telling us? 16 months gave us £273k if I understood the numbers correctly and these numbers show that in a calendar year we have got £164k, so that means £109k was made in the four months to December 2016. Is that a fair reflection of these numbers?

JW – I wouldn't want to say that without going through it Mr Cartmell. These show a direct 12 months.

GC – Yes I appreciate that. So, I am comparing the 16 months to December which I think if I understood the numbers and I accept I may not. I am interested that, if that is the case, because if I may say so, it is completely contrary to what we were told at the last shareholders meeting which was that throughout the 16 months period basically there was no (I think the words were) significant fluctuation so I would be interested to know, after the meeting.

JR – Obviously. If you can give JW some time to come up with an answer there, shall we go onto Question 2?

Question 2

SD – This related to, I think some floating charge that was taken out since the last accounting period. The question was, why was there no mention of this in the accounts. The disclosure rules around charges are, if you have borrowings and there are charges that support those borrowings, then the fact of the charge has to be stated in the accounts and the nature of the charge explained. If there aren't borrowings however then there is no need to actually give that disclosure. In this particular case the fixed and floating charge was put in place during the last year to enable the Company that should it so wish to be in a position to act quickly and secure some borrowings without the time that it would then take to put the charges in place. In the future if borrowings are actually taken out, then the appropriate disclosure would be made but there is no need to give a disclosure if there are no borrowings to which they attach to.

JR – any other questions?

GC – I was the person who raised that question and am sure this is an interpretation of legislation. It does also say particulars must be given of any financial commitment that are relevant to assessing the Company's state of affairs. You may take the view they aren't relevant but I would challenge whether that is correct in the benefit of open governance which is part of what our philosophy now is, that it would be a good idea to disclose that and should have been disclosed in my view in the year in which it happened. I believe it is that infamous statutory instrument. I'll leave it with you.

SD – OK. I note your view and I note the statutory and legal position.

Peter Ellwood (PE) – Just to make mention of that Mr Cartmell, you said then that there was no commitment to the bank at the year end so, just in your own words there, there is no commitment to disclose because they actually didn't physically bank anything.

GC – If I didn't make it clear, I wasn't saying there was a commitment from an overdraft point of view. I was saying in the case of open governance which we are now in the era of, which I am pleased to acknowledge and accept, I would have thought it would have been appropriate to have said not because it was necessarily is technically. There are always different views about how it is interpreted.

JR – Point noted.

Ian Lancaster (IL) – Mr Chairman, a question for Stephen (Dunn) and I do apologise that you are defacto finance director here and it is a question of which my apologies you will not be able to fully answer just off the top of your head. We have the investment properties that have been revalued by Carigiet

Cowen for something like £4,060,000 as against the historical cost of something in the region of £1,000,000 (1 million) now there is no provision made for the deferred taxation on that but some of these properties will go back a long way will have indexation on them which is now something for the future. Can the Board or Mr Ellwood give any indication of what the likely tax liability would be if the Company were to sell the properties for its revalued amount of £4,060,000.

SD – to answer your question, it is now a requirement under FRS 102 to provide for deferred tax on an increase in value on investment properties. However, and you have referred to it, the value of the indexation allowance has meant that, when that deferred tax liability is calculated, it turns out to be nil. It has been included but at a value of nil.

IL – I am trying to work out indexation going back to 1982. Cost of a million, that might inflate it to 3-3.5 million. If the properties were sold for £4,060,000, the Company would have no tax liability.

SD – On those investment properties at that value, correct. I know that because that's a question that we asked, we have the same observations.

TS – This goes back to the 16-month period. Last year I asked why we had only had 12 months dividend for a 16-month period. I got an answer which, I don't think I was alone in the room in not understanding and I read the minutes of the meeting and I was no wiser but I thought, for the benefit of the doubt, I will wait till next year and see whether they catch up with themselves. Is it just that those 4 months are now lost (they are not lost in Company in profit clearly) but are they lost to us for ever in dividend?

JR -The dividend that we paid over that 16-month period was what the board felt was warranted by the performance of the Company.

TS – It has been the same year in and year out?

JR – It has been exactly the same.

TS – There's a pattern and that was the 12-month dividend.

JR – I appreciate where you are coming from but that was the decision we made.

TS – It is lost to us for good.

JR – It's not a loss, it was never there.

TS – OK. We just got an equivocal answer last year and this has rather confirmed it and I just wanted it confirmed.

JR – Any more questions?

Derek Calrow (DC) - Mr Chairman, I was very pleased to hear from what you said earlier that you'd acquired 9,000 odd shares in the Company. I was pleased to hear it because I have bought some more myself over the last year. Would it be possible to put Directors holdings in the accounts?

JW – It's certainly available to be viewed within our share register. It's a point we will take on board.

JR – Any more questions?

Harold Johnson (HJ) - Mr Chairman. How much are the shares worth at the moment?

JR – 26.33.

HJ – Mr Chairman, would it be possible to get a microphone for next year? We can't hear what you are saying.

JR – I have no doubt we can afford that. Yes.

HJ – I have asked this before and it seems to go on deaf ears.

JR – I'll shout more. So, back to no. 1, any more questions?

IL – It's obviously very encouraging about the planning permission at J41 but it might be interesting to hear the members of the Board's view as to how the development will take place in as far as you get planning permission but I've built industrial buildings in the past and it is quite a costly job and the fact that you have got planning may not necessarily mean that there is going to be a lot of value.

JR – There are two ways of looking at it. 1. We can try and develop ourselves, which has huge risk – larger reward potentially or there is the other option of finding a developer who may come in and develop the land. That may be the option we take; we haven't decided as a Board yet but what we are looking at is that there is no way that we will risk shareholders' money on a huge risk reward scenario so the chances are that we may go to the second type of development. That's what we are discussing as a Board now.

GM – Mr Chairman, what effect do you think that the people of Penrith have rebelled against the bypass round the back of the Beacon, which was coming out at Stoneybeck. It would appear that that's not going to happen now. How's that going to affect your development when we have got Gillwilly still half empty at Penrith?

JR – All I can say is that, behind the scenes, there are discussions going on. We are optimistic as a Board that E41 will return for the Company in around 12 months' time. I can't discuss the details of where we are at with that but as a Board, we are exceptionally confident that we will get a return on it.

GM – Are you saying that you are confident that the bypass will go ahead?

JR – No, I haven't got a crystal ball, I can't answer that question.

Stephen Lancaster (SL) – I don't think it would affect us, Graham, on there and I am happy that, since we have received planning consent, we have local interest, regional interest and we will have an advert in Property Week by the end of May and that will flush out any national interest. It is disappointing that the bypass is not going ahead but for our purposes, it hasn't affected us at all. Certainly, from what I have seen anyway. Thank you.

JR- Any more questions on resolution 1?

GC – I have one more. I re-read your statement before I came into the meeting Mr Chairman and I noted something which I hadn't noticed before that you say in your review of the business; the Board and the Executive Team took the decision to close the Appleby Office in January 2019. Does that imply that the costs of that closure, whatever they were, will fall in this accounting year or where they provided for in last year? You have already said that this year would be tough.

JW – They will be provided for this year. They weren't provided for in the accounts in last year.

JR – Any more questions on resolution 1? I will read the resolution again. To receive the Company's annual accounts for the financial year ending 31 December 2018 together with the Directors' and Auditors' report on those accounts.

Seconded by SL. For and against. Motion carried.

Resolution 2

JR - To declare a final dividend of 25p per share as recommended in the Report of Directors and Financial Statements for the year ended 31 December 2018.

Seconded by TS. For and against. Motion carried.

Resolution 3

JR – Here's an interesting one. To reappoint as a Director Mr J Rowlands who retires by rotation and offers himself up for re-election.

Seconded by KM. For and against. Motion carried.

Resolution 4

JR - To reappoint as a Director Mr S Dunn who was appointed by the Board since the last AGM.

Seconded by IL. For and against. Motion carried.

Resolution 5

JR - To appoint RSM as auditors to hold office from the conclusion of the meeting to the conclusion of the next meeting at which the accounts are laid before the Company at a remuneration to be determined by the Directors.

JR – We have already a question on this one. I will ask Stephen Dunn to answer this one please.

SD – I am answering this question in my capacity as Chair of the Audit Committee. I won't read the question out verbatim but it's really around the process that was undertaken to select new Auditors and the timing. As far as the process is concerned, the entire procedure was based on guidance from the Financial Reporting Council, "Best Practice Notes for Audit Tenders" was followed. I'll read the introduction to the briefing note just to give you the rationale for looking at changing Auditors headed "why are PFK undertaking a tender?" This is PFK's focus on Corporate Governance and the demands of the regulatory framework suggests a regular review of Auditors should be undertaken. In addition to this, feedback from Companies that have changed Auditors indicate that there are benefits to be gained from fresh insight. As PFK embarks on a new phase of expansion and operational diversification, there is also need for a more strategic approach to our advisory services. So that's really the reason why the Company decided to go out to tender its audit services. In addition to that a question had been raised at the previous AGM on the same matter.

As far as the time table of procedure is concerned, we got the final report for the Board, talking you through when the decisions were made, which was the question asked, it followed the May 2018 Board meeting where it was decided that the Audit and advisory services would go out to tender. In June and July 2018, the Board members proposed various firms to consider. I think there were 6 such firms and it was whittled down to a short list of 3, including the incumbents. A document was prepared, following the guidance that I previously mentioned, where the audit request for proposal was sent out to all of the firms but then followed a period where the firms themselves could visit the Company, ask questions and ask for further information and Joe Webb managed that process. The process was temporarily put on hold because, at that stage, Jeanette had indicated that she was going to retire and a new Chair of the Audit Committee was to be appointed, myself. So, in November, there was a panel of 3 which comprised Jeanette, the previous Chair, Joe and myself and presentations were received from each of the 3 firms. We had a scoring matrix covering things like depth of services of the firm, value for money, quality of presentations and proposal documents and so on. At the conclusion of those presentations, we were individually unanimous in the selection of the proposed firm. That was then all summarised and presented to the Board at its December meeting where it was decided to recommend that RSM be put to this meeting for approval as being the Auditors for this next year onwards. That's broadly the timeline and the process.

IL – Is there an inference therefore that, as opposed to the pure Audit function, you are looking at RSM for advisory or would you have just shopped around for the most appropriate advisors in the particular category?

SD – We have reserved the right to do that but we felt that having the Audit firm involved in the Audit gives a base level of knowledge and therefore enables more proactivity from the firm than if we just approached them on a – so they could be more proactive rather than just reactive.

JR – Any more questions on item 5?

GC – Mr Chairman, I am happy that my question wasn't read out but there is one sentence that I would like to read out which says. "I am sure the shareholders appreciate the efforts required in undertaking the exercise on our behalf which you kindly did and I think, in light of what has been said, that it more appropriate when I wrote it.

JR – Thank you.

Michael Veitch (MV) – Mr Chairman and members of the Board. With regard to the tender, I am interested in the success criteria which Mr Dunn has explained beautifully but I am particularly interested in hearing your views on assessing what might be termed professional scepticism. What spiked my curiosity was p14 of the Independent Auditors' report, about half way down it says and I quote "as part of an audit, in accordance with ISA's (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. Now, this business of professional scepticism, I saw something on the BBC this morning about a very high-profile auditing Company having been given a multimillion pound fine for failing to audit a bank properly and one of the reasons was a lack of professional scepticism. I'd like to hear the Board's views on how the new auditing Company squares up to this concept of professional scepticism.

John Wilson – I will give Stephen a break and I will do my best to answer that. Just taking a little step back, yes, I think it was discussed at the last AGM that, whilst Robinsons had done a very good job for the Company, I raised the issue that we needed to, notwithstanding the good job that Robinsons have done, look at the bigger picture. That wasn't a review of who was doing the work for the Company and I emphasise that there was no unhappiness whatsoever with anything that Robinsons had done and the Board were very happy but, fundamentally, we had to review the situation which we now have done.

With regard to your question, it's a difficult one, you have the biggest accountancy firms in the world in the Newspaper pretty much every day over one scandal or another. I wasn't involved in the tender process but, as a board member, I received the advice of the group and I think that, probably the best way I can explain my own personal view is that we try to strike a balance between relationship and day to day knowledge and, if you like, professionalism of the firms concerned. RSM, from my own perspective, struck an attractive balance between hands on and individual management of

the accounts and also being a firm with, as far as I have been able to tell, good governance structures, a decent sized firm but not being within the cabal of the biggest firms in the country and / or the world really. So, they struck a good balance between expertise and size, responsibility and governance and I can't really say any more than that. We did test the market and we picked upon something that wasn't one of the biggest firms for obvious reasons and wasn't one of the smallest and is possibly in the middle but they are still a significant business. I think they have about 3,000 employees nationally so it's a sizeable business but one which we took the view would give us the individual support, as PFK, that first of all the shareholders needed from an audit perspective and possibly with regard to agrarian? It's difficult. We did what we thought was right.

I would like to emphasise that Robinsons have done a great job for the Company but we just felt that we had to assess the market and that was the result that the panel had assessed and we have done what we thought was right for the firm.

Alan Atkinson (AA) – Mr Chairman, who is RSM and where are they from?

SD – RSM are – the way the accountancy profession is currently structured is that there are currently the big four accountancy firms. Now the big four accountancy firms generally, I think there is only one FTSE 100 Company that they don't audit, so they have got a stranglehold of the really big Companies. I worked for one of those out of Preston Office where the clients were much smaller in size and more diverse and so on. RSM are what's called the second tier so there are a number of very good quality firms operating below that top tier so they are the ones that most businesses will use by number generally.

AA – But you still haven't said who they are. What does RSM stand for? Is it Royal South American, Manchester or ...?

IL -They will have about 20 offices throughout the country, something of that nature. I don't know which office you will be using.

SD – If you would like to know just a little bit more about RSM just bear with me for one second but they will operate from Preston office and have a reasonably sizeable office there of about 200 people. That contrasted, for example with KPMG's office in Preston which has about 150 so, they are actually bigger in size locally than KPMG were. Being a substantial second tier firm, they are a top ten (interrupted by AA).

AA – I don't want to sound like Jeremy Paxman but who is RSM? I just want to know who they are.

SD – RSM, like KPMG, no longer means anything anymore. KPMG was Klein Peat Marwick Goerdeler. GKN was Guest, Keen and Nettlefolds.

AA – Please sit down, that's fine.

JR – any more questions on resolution 5?

Robert Good (RG) – It's not a question but I think, on behalf of the shareholders, I would like to take an opportunity of thanking Robinson & Co for the services they have provided to the Company for quite a number of years now and, perhaps on a personal level, for their help and advice they gave me, initially as Chairman of the Audit Committee and subsequently as Chairman of the Company, so I'm very grateful to you. Thank you very much indeed.

Hear hear, round of applause.

JR – Any more questions on resolution 5?

To appoint RSM as Auditors to hold office from the conclusion of the meeting to the conclusion of the next meeting at which the accounts are laid before the Company at a remuneration to be determined by the Directors.

Seconded by Derek Calrow. For and against. Resolution carried.

JR – I would like to take this opportunity as well to thank Robinsons who have worked for many years at PFK and we have had some fantastic service. We have had a good working relationship and it is no reflection on yourselves why they have changed. I would like to wish you all the best in the future and all the best from the Board and the shareholders. Thank you very much.

I now declare the meeting closed.

Meeting closed at 11.50am