Grampian Country Pork Halls Limited

Directors' report and financial statements
Registered number 30981
31 May 2002



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 May 2002.

Principal activities

The principal activities of the company during the year were the processing and merchanting of pigmeat products.

Business review

The company's underlying performance continues to improve. The benefits which took place in 2000/01 continue to be realised.

Benefits are also being seen from the ongoing capital expenditure programme.

Proposed dividend and transfer to reserves

The profit and loss account on page 5 shows a profit for the financial year of £1,372,000 *(2001 loss: £37,000 (restated))*.

The directors do not recommend the payment of a dividend.

Directors and directors' interests

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

A J Duncan	(Chairman)
I M Imray	
J A Jaffray	
G S Mackie	
D E Woolfall	(resigned 30 May 2002)

None of the directors who held office at the end of the financial year had any interests in the shares of the company. Mr Duncan and Mr Mackie are directors of the company's ultimate holding company and their interests in the shares of that company are shown in its directors' report. Mr Jaffray is interested in 10,000 *(2001: 40,000)* ordinary shares of the ultimate holding company. None of the other directors had any interest in the share capital of the ultimate holding company or any of the company's fellow subsidiary undertakings.

Employee involvement

It is the company's policy that management should consult regularly with employees on matters which affect their employment and that their views should be taken into account when decisions are taken which will affect their interests.

Employment of disabled persons

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

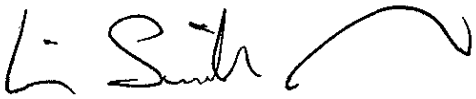
Directors' report *(continued)*

Auditors

Our auditors KPMG have indicated to the directors that their business has transferred to a limited liability partnership, KPMG LLP. Accordingly, KPMG resigned as auditors on 8 May 2002, and the directors thereupon appointed KPMG LLP to fill the vacancy arising.

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



Iain Smith & Co
Secretaries

East Main Street
Broxburn
West Lothian

6 November 2002

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those 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 whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG
37 Albyn Place
Aberdeen
AB10 1JB
United Kingdom

Independent auditors' report to the members of Grampian Country Pork Halls Limited

We have audited the financial statements on pages 5 to 19.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards 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. 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 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 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 May 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

6 November 2002

Profit and loss account

for the year ended 31 May 2002

	Note	2002 £000	2001 (restated – note 13) £000
Turnover	2	**67,588**	64,778
Change in stocks of finished goods and goods for resale		**31**	264
Raw materials and consumables		**(37,168)**	(37,739)
Staff costs	4	**(14,475)**	(13,895)
Depreciation and other amounts written off tangible and intangible fixed assets		**(2,169)**	(2,419)
Other operating charges		**(10,204)**	(11,022)
		(63,985)	(64,811)
Operating profit (loss)		**3,603**	(33)
Interest payable and similar charges	5	**(518)**	(626)
Profit (loss) on ordinary activities before taxation	3	**3,085**	(659)
Taxation on profit (loss) on ordinary activities	6	**(1,590)**	622
Profit (loss) on ordinary activities after taxation for the financial year	15	**1,495**	(37)

All figures relate to continuing operations.

A statement of movement in reserves is shown in note 16.

Balance sheet
at 31 May 2002

	Note	2002		2001 (restated – note 13)	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	*7*		**19,144**		18,783
Current assets					
Stocks	*9*	**1,767**		1,736	
Debtors	*10*	**6,508**		8,381	
Cash at bank and in hand		**6**		2	
		8,281		10,119	
Creditors: amounts falling due within one year	*11*	**(12,924)**		(16,896)	
Net current liabilities			**(4,643)**		(6,777)
Total assets less current liabilities			**14,501**		12,006
Creditors: amounts falling due after more than one year	*12*		**(8,478)**		(8,106)
Provision for liabilities and charges	*13*		**(1,469)**		(1,708)
Accruals and deferred income	*14*		**(867)**		-
Net assets			**3,687**		2,192
Capital and reserves					
Called up share capital	*15*		**680**		680
Profit and loss account	*16*		**3,007**		1,512
Shareholders' funds					
Equity		**3,187**		1,692	
Non-equity		**500**		500	
	17		**3,687**		2,192

These financial statements were approved by the board of directors on 6 November 2002 and were signed on its behalf by:

AJ Duncan
Director

Statement of total recognised gains and losses

for the year ended 31 May 2002

	2002	2001 (restated – note 13)
	£000	£000
Profit (loss) for the financial year being total recognised gains and losses relating to the financial year	**1,495**	(37)
Prior year adjustment (as explained in note 13)	**1,629**	
Total gains and losses recognised since last annual report	**3,124**	

Notes *(continued)*

1 Accounting policies

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

Change in accounting policy
The implementation of Financial Reporting Standard 19 *Deferred Tax* has resulted in the restatement of the profit and loss account and balance sheet deferred tax figures for the year ended 31 May 2001 (note 13).

Basis of preparation
The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about group.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As the company is a wholly owned subsidiary of Grampian Country Food Group Limited it has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities which form part of the group.

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

Freehold buildings	-	2%
Plant and machinery	-	10% to 20%
Motor vehicles	-	25%

No depreciation is provided in respect of freehold land.

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

Pension scheme contributions
The company participates in pension schemes providing benefits based on final pensionable salary operated by the parent company. The assets of the scheme are held separately from those of the group. The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the periods benefiting from the employees' services.

The company participates in defined contribution pension schemes operated by the parent company. The assets of the schemes are held separately from the group in independently administered funds. The amount charged to the profit and loss account represents contributions payable to the schemes in respect of the accounting periods.

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

Notes *(continued)*

1 Accounting policies *(continued)*

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

Taxation
The charge for taxation is based on the results for the year and takes into account deferred tax. Deferred tax is recognised with discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date.

2 Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers. The turnover and profit is attributable to the processing and merchanting of pigmeat products and is derived mainly in the United Kingdom.

3 Profit (loss) on ordinary activities before taxation

	2002	2001
	£000	£000
Profit (loss) on ordinary activities before taxation is stated		
after charging:		
Depreciation written off tangible fixed assets:		
Owned	**1,773**	2,003
Leased	**536**	418
Auditors' remuneration – audit	**13**	14
- other services	**4**	4
Hire of plant and machinery - rentals payable under operating leases	**103**	244
Hire of other assets - operating leases	**-**	59
after crediting:		
Gain on sale of fixed assets	**7**	2
Grant release	**133**	-

The aggregate emoluments of the directors of the company who are also directors of the ultimate holding company are disclosed in the financial statements of that company. These directors include the highest paid director whose emoluments are separately disclosed in the financial statements of that company.

The aggregate emoluments of the directors who are also directors of Grampian Country Pork Limited are disclosed in the financial statements of that company.

Notes *(continued)*

4 Staff numbers and costs

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

	Number of employees	
	2002	2001
Management and administration	**105**	99
Production	**629**	609
Sales and distribution	**91**	94
	825	802

The aggregate payroll costs of these persons were as follows:

	2002	2001
	£000	£000
Wages and salaries	**13,038**	12,732
Social security costs	**976**	996
Pension costs	**461**	167
	14,475	13,895

Pensions

The company's eligible employees and the directors are members of group pension schemes which are operated by the ultimate holding company, Grampian Country Food Group Limited. Details of the schemes are given in the financial statements of that company.

The company operates a pension scheme providing benefits based on final pensionable pay, the David A Hall Limited Retirement Benefit Plan (1972), and also operates a defined contribution scheme, the David A Hall Limited Lifestyle Pension Plan. The assets of both schemes are held separately from those of the company.

An actuarial valuation was completed as at 1 December 1999. The attained age of valuation was applied as the scheme is now closed to new entrants. The principal assumption was that there would be a real rate of return on assets each year of 2.5% over price inflation.

The actuarial valuation indicated that the level of funding as at the valuation date was 97%. The deficit is being spread over the average remaining service lives of the employees. At 31 May 2002 the pension creditor in the company's balance sheet is £1,469,000 *(2001: £1,710,000)*. There is a pension charge in the year of £211,000 *(2001: £291,000)* and this includes a credit of £149,000 *(2001: £109,000)* arising from variations in pension costs.

The company continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 *'Accounting for Pension costs* the disclosures in relation to which are given above. The accounting required to conform to FRS 17 *'Retirement benefits'* will be introduced in accordance with the transitional requirements of that standard. The following sets out the initial disclosures under FRS 17.

Notes *(continued)*

4 Staff numbers and costs *(continued)*

Main assumptions

The actuary to the scheme has provided an independent valuation on an FRS 17 basis as at 31 May 2002. The major assumptions used in this valuation were:

Rate of increase in salaries	4.0%
Rate of increase in pensions in payment	2.6%
Discount rate	6.0%
Inflation assumption	2.9%

These assumptions are considered to represent a best estimate of the main issues affecting the long term liability which may arise out of the scheme. Due to the long term nature of this valuation these assumptions may or may not be borne out in practice.

The scheme's assets are invested, based on independent professional advice, in a range of asset classes. The assumptions as to the returns which these asset classes may produce in the future and the way in which these assets were invested at 31 May 2002 is set out below. The trustees have indicated that there is no intention to realise significant amounts of these investments in the foreseeable future. The value of the assets may be subject to significant change before they are realised.

	Rate of return %	Value of assets £000
UK Fixed Interest	6.0	2,400
International Bonds	7.0	900
UK Equities	8.0	15,000
International Equities	8.0	9,600
Property	8.0	1,800
Cash	5.3	200
Total	**7.8**	**29,900**

Projected Position

The market value at 31 May 2002 of the assets of the scheme and the projected present value of the cash flows required to meet the scheme liabilities are summarised below:

	£000
Total market value of assets	29,900
Present value of scheme liabilities	41,700
Deficit in the scheme	(11,800)
Related deferred tax assets	3,500
Net pension liability	**(8,300)**

Notes *(continued)*

4 Staff numbers and costs *(continued)*

The net pension liability reflects the value of scheme assets at 31 May 2002 against the projected liabilities of the scheme. Although best assumptions have been used in arriving at this liability there is inherent uncertainty in the result. The directors and the scheme trustees have advisers to aid them in determining the most appropriate level of on-going funding required to meet the scheme liabilities. The position is continuously monitored and the advice of these professionals is being followed. No substantial increase in current funding levels is believed necessary in the short term to ensure the liabilities are met in full.

On the full implementation of FRS 17 the amount of this net pension liability would also be included in the company's profit and loss reserve. This does not need to be implemented until the company's May 2004 financial year.

5 Interest payable and similar charges

	2002 £000	2001 £000
On bank loans and overdrafts	368	518
On all other loans	4	4
Finance charges payable in respect of finance leases and hire purchase contracts	128	104
Other interest payable	18	-
	518	626

6 Taxation

Analysis of charge (credit) in year	2002 £000	£000	2001 (restated – note 13) £000	£000
Current tax				
UK corporation tax on profit (loss) for the year	2		2	
Group relief	-		(613)	
Adjustments in respect of previous years	354		(3)	
Total current tax		356		(614)
Deferred tax				
As previously restated	1,234		-	
Prior year adjustment (note 13)	-		(8)	
As restated	1,234		(8)	
Analysed as follows:				
Timing differences between accounting and tax treatment	1,291		(4)	
Movement in discount	(57)		(4)	
		1,234		(8)
Tax on profit (loss) on ordinary activities		1,590		(622)

Notes *(continued)*

6 Taxation *(continued)*

Factors affecting tax charge (credit) for year

The tax assessed for the year is the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2002 £000	2001 £000
Profit (loss) on ordinary activities before taxation	**3,085**	(659)
Profit (loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% *(2001: 30%)*	**926**	(198)
Effects of:		
Expenses disallowable for tax purposes	**32**	-
Capital allowances for period in excess of depreciation	**(275)**	61
Utilisation of tax losses	**(917)**	-
Other timing differences	**(99)**	(57)
Adjustments to tax charge in respect of previous periods	**354**	(3)
Other items	**335**	(112)
Group relief surrendered at higher rate than standard rate of corporation tax	**-**	(305)
Current tax charge (credit) for period	**356**	(614)

7 Tangible fixed assets

	Freehold land and buildings £000	Plant and machinery £000	Motor vehicles £000	Total £000
Cost				
At beginning of year	13,337	25,012	283	38,632
Additions	114	2,415	135	2,664
Disposals	-	-	(92)	(92)
Intra-group transfers	-	-	74	74
At end of year	13,451	27,427	400	41,278
Depreciation				
At beginning of year	2,774	16,928	147	19,849
Charge for year	251	1,980	78	2,309
On disposals	-	-	(85)	(85)
Intra-group transfers	-	-	61	61
At end of year	3,025	18,908	201	22,134
Net book value				
At 31 May 2002	**10,426**	**8,519**	**199**	**19,144**
At 31 May 2001	10,563	8,084	136	18,783

Notes *(continued)*

7 Tangible fixed assets *(continued)*

Included within the total net book value of fixed assets of £19,144,000 *(2001: £18,783,000)* is £3,188,000 *(2001: £2,753,000)* in respect of assets held under finance leases and similar hire purchase agreements. The depreciation charge for the year on these assets was £502,087 *(2001: £418,000)*.

Included within fixed assets is land with a value of £811,000 *(2001: £811,000)* which is not depreciated.

8 Investments

The company's investment of £1,250,000 in Scottish Pork Limited has been fully written off at 31 May 2001 and 2002. Scottish Pork Limited is wholly owned, is incorporated in Great Britain and registered in Scotland, and is non trading.

9 Stocks

	2002	2001
	£000	£000
Raw materials and consumables	**366**	665
Finished goods and goods for resale	**1,401**	1,071
	1,767	1,736

10 Debtors

	2002	2001 (restated – note 13)
	£000	£000
Debtors – as originally stated	**6,417**	6,752
Prior year adjustment (note 13)	**-**	1,629
As restated	**6,417**	8,381

	2002	2001
	£000	£000
Amounts falling due within one year:		
Trade debtors	**3,544**	4,180
Amount owed by group undertakings	**1,941**	1,722
Other debtors	**530**	345
Prepayments and accrued income	**97**	505
Deferred tax asset (note 13)	**395**	1,629
	6,507	8,381
Amounts falling due outwith one year:		
Pension prepayment	**1**	-
	6,508	8,381

Notes *(continued)*

11 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Bank overdraft	**4,867**	7,273
Obligations under finance leases and hire purchase contracts (note 11)	**956**	1,026
Trade creditors	**2,417**	3,124
Corporation tax	**299**	80
Amount owed to group undertakings	**674**	420
Other taxes and social security	**309**	268
Other creditors	**1,264**	1,924
Accruals and deferred income	**2,138**	2,781
	12,924	16,896

Bank borrowings are secured by floating charges and standard securities over the company's assets.

12 Creditors: amounts falling due after more than one year

	2002 £000	2001 £000
Obligations under finance leases and hire purchase contracts	**978**	606
Amount owed to group undertakings	**7,500**	7,500
	8,478	8,106

The amount owed to group undertakings represents a loan of £7,500,000 payable to Grampian Country Pork Suffolk Limited.

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	2002 £000	2001 £000
Within one year	**956**	1,026
Between one – two years	**708**	453
Between two and five years	**270**	153
	1,934	1,632

Notes *(continued)*

13 Provisions for liabilities and charges

	Deferred Taxation (note 10) £000	Pensions and similar obligations (note 4) £000
At beginning of year (as previously stated)	-	1,708
Prior year adjustment	(1,629)	-
At beginning of year as restated	(1,629)	1,708
Credit to profit and loss account	1,234	(239)
At end of year	**(395)**	**1,469**

The comparative figures have been restated to take account of the adoption of Financial Reporting Standard 19 – Deferred Tax (FRS 19). In previous years the company accounted for deferred tax on a partial provisioning basis which meant that deferred tax was only provided to the extent that it was probable that a liability would crystallise. FRS 19 requires full provision to be made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation, and allows for the provision to be discounted.

The adoption of FRS 19 has been recorded as a prior year adjustment. The effect of this has been to adjust the opening deferred tax position by £1,629,000 and to adjust the 2001 deferred tax credit of £nil in the profit and loss account to a credit of £8,000.

The elements of deferred taxation are as follows:

	2002 £000	2001 £000
Differences between accumulated depreciation and amortisation and capital allowances	**2,309**	2,034
Losses	**(1,850)**	(2,767)
Other timing differences	**(127)**	(226)
Undiscounted asset	**332**	(959)
Discount	**(727)**	(670)
Discounted asset (note 10)	**(395)**	(1,629)

14 Accruals and deferred income

	2002 £000	2001 £000
Capital grants		
Received in year	**1,000**	-
Release	**(133)**	-
	867	-

Notes *(continued)*

15 Called up share capital

	2002 £000	2001 £000
Authorised		
Equity		
200,000 ordinary shares of £1 each	**200**	200
Non-equity		
500,000 redeemable preference shares of £1 each	**500**	500
	700	700
Allotted, issued, and fully paid		
Equity		
180,000 ordinary shares of £1 each	**180**	180
Non-equity		
500,000 cumulative redeemable preference shares of £1 each	**500**	500
	680	680

The cumulative redeemable preference shares carry a fixed cumulative preferential dividend of 10% per annum payable twice yearly in arrears. The company has the option to redeem these shares at par at any time in whole or in part.

The holders of these shares are not entitled to vote at any general meeting unless the dividend is six months in arrears or the business of the meeting includes the consideration of winding-up the company or for a reduction in capital or adversely modifying or abrogating any of the special rights or privileges attached to the Preference Shares in which case the holders thereof shall only be entitled to vote at the relevant meeting in respect of such resolutions.

The cumulative redeemable preference shareholders rank before the ordinary shareholders on a winding-up of the company. On winding up, the cumulative redeemable preference shareholders are entitled to the nominal value of the shares together with any arrears of dividend.

The holder of the cumulative redeemable preference shares has waived its entitlement to dividends for the current year.

16 Profit and loss account

	2002 £000	2001 £000
At beginning of year (as previously stated)	**(117)**	(72)
Prior year adjustment (note 13)	**1,629**	1,621
At beginning of year – restated	**1,512**	1,549
Result for the financial year	**1,495**	(37)
At end of year	**3,007**	1,512

Notes *(continued)*

17 Reconciliation of movements in shareholders' funds

	2002 £000	2001 £000
Profit (loss) for the financial year being net addition to (reduction in) shareholders funds	**1,495**	(37)
At beginning of year (as previously restated)	**563**	608
Prior year adjustment (note 13)	**1,629**	1,621
At beginning of year (as restated)	**2,192**	2,229
At end of year	**3,687**	2,192

18 Commitments

(i) Capital commitments at the end of the financial year for which no provision has been made, are as follows:

	2002 £000	2001 £000
Contracted for	**2,442**	668

(ii) At the end of the financial year, the company had annual commitments under non-cancellable operating leases for items other than land and buildings are as follows:

	2002 Other £000	2001 Other £000
Operating leases which expire:		
Within one year	**5**	104
In the second to fifth years inclusive	**118**	84
	123	188

19 Contingent liabilities

The company has provided a guarantee to the Intervention Board for Agricultural Produce for £10,000 *(2001: £10,000)*.

The company has granted to, and received from Grampian Country Food Group Limited and all its trading subsidiaries unlimited cross guarantees which are covered by the floating charges and standard securities (amounting to £135,653,000 *(2001: £102,549,000)* - secured in the first instance against the assets of the borrowing company).

Notes *(continued)*

20 Ultimate holding company

The directors consider Grampian Country Food Group Limited, registered in Scotland, to be the ultimate holding company at the balance sheet date.

The largest group in which the results of the company are consolidated is that headed by Grampian Country Food Group Limited. No other group accounts include the results of the company. The consolidated accounts of this group are available to the public and may be obtained from the Registrar of Companies, 37 Castle Terrace, Edinburgh.