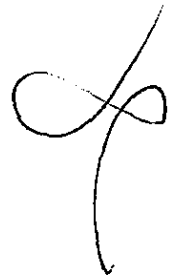


Marshall Food Group Limited

**Directors' report and financial
statements**

Registered number 34389

31 May 2000



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 May 2000.

Principal activities

The principal activities of the company are the production of chicken and the manufacture of convenience foods.

Business review

It has been a difficult year for the company with the strength of sterling making imports competitively priced and the effect of retail margins being squeezed impacting the trading performance. During the later part of the year the business was restructured, given the competitive and changing market place. The full benefit of the cost savings achieved have still to be realised in the business. In total an exceptional charge of £5,603,000 was made in the year to deal with the cost of reorganisation.

Dividends and transfer to reserves

The profit and loss account on page 5 shows a loss after taxation for the financial year of £8,363,000 (1999: £3,173,000). 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:

AJ Duncan
PT Hopley
IM Imray
M Smith

None of the directors who held office at the end of the financial year had any interests in the shares of the company. The interests of the directors in the shares of the ultimate holding company are shown in that company's directors' report.

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

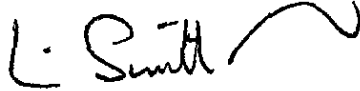
The company employs disabled persons who are able to fulfil the required duties and such disabled persons share the same opportunities for training and career progression as other employees.

Directors' report *(continued)*

Auditors

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

By order of the board

A handwritten signature in black ink, appearing to read 'I. Smith', followed by a long, sweeping horizontal flourish.

Iain Smith & Co
Secretaries

20 Queen's Road
Aberdeen
AB15 4ZT

26 September 2000

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.



37 Albyn Place
Aberdeen
AB10 1JB
United Kingdom

Report of the auditors to the members of Marshall Food Group Limited

We have audited the financial statements on pages 5 to 16.

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. 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 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 affairs of the company as at 31 May 2000 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditors

4 October 2000

Profit and loss account
for the year ended 31 May 2000

			2000		
	Note	Before exceptional items £000	Exceptional items (Note 3) £000	Total 2000 £000	8 months to 31 May 1999 £000
Turnover	2	213,335	-	213,335	123,606
Change in stocks of finished goods and goods for resale		(107)	-	(107)	136
		213,228	-	213,228	123,742
Raw materials and consumables		(117,637)	(58)	(117,695)	(64,876)
Staff costs	6	(47,525)	(4,601)	(52,126)	(32,482)
Depreciation and other amounts written off tangible fixed assets		(5,531)	(819)	(6,350)	(3,118)
Other operating charges		(43,960)	(125)	(44,085)	(27,196)
Operating loss		(1,425)	(5,603)	(7,028)	(3,930)
Interest receivable and similar income	7	345	-	345	-
Interest payable and similar charges	8	(3,083)	-	(3,083)	(1,904)
Loss on ordinary activities before taxation	4	(4,163)	(5,603)	(9,766)	(5,834)
Taxation on loss on ordinary activities	9			1,403	2,661
Loss on ordinary activities after taxation for the financial period				(8,363)	(3,173)
Retained loss brought forward				(14,789)	(11,616)
Retained loss carried forward				(23,152)	(14,789)

All figures relate to continuing operations.

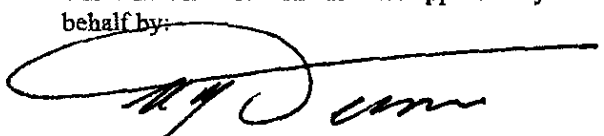
The company had no recognised gains or losses other than the loss for the financial year.

Balance sheet

at 31 May 2000

	Note	2000 £000	1999 £000
Fixed assets			
Tangible assets	10	35,210	39,499
Investments in subsidiary undertakings	11	45	45
		<u>35,255</u>	<u>39,544</u>
Current assets			
Stocks	12	10,821	10,875
Debtors	13	23,004	21,679
Cash at bank and in hand		10	12
		<u>33,835</u>	<u>32,566</u>
Creditors: amounts falling due within one year	14	<u>(64,274)</u>	<u>(65,270)</u>
Net current liabilities		<u>(30,439)</u>	<u>(32,704)</u>
Total assets less current liabilities		<u>4,816</u>	<u>6,840</u>
Creditors: amounts falling due after more than one year	15	(1,234)	(2,324)
Provisions for liabilities and charges	16	(459)	(618)
Accruals and deferred income	17	(1,270)	(682)
Net assets		<u>1,853</u>	<u>3,216</u>
Capital and reserves			
Called up share capital	18	25,005	18,005
Profit and loss account		<u>(23,152)</u>	<u>(14,789)</u>
Shareholders' funds			
Equity		(18,147)	(9,784)
Non-equity		<u>20,000</u>	<u>13,000</u>
	19	<u>1,853</u>	<u>3,216</u>

These financial statements were approved by the board of directors on 26 September 2000 and were signed on its behalf by:


AJ Duncan
Director

Notes

(forming part of the financial statements)

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.

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 therefore contain information about this company as an individual undertaking only and not about its group.

The company is exempt from the requirements of Financial Reporting Standard 1 to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of a parent undertaking which has produced a group cash flow statement in accordance with the provisions of the standard.

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.

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 useful economic lives as follows:

Freehold buildings	-	2% to 4%
Plant and machinery	-	10% to 25%
Motor vehicles	-	25%
Fixtures & fittings	-	10%

No depreciation is provided on freehold land.

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.

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.

Notes (continued)

1 Accounting policies (continued)

Pension scheme contributions

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.

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.

Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

2 Turnover

Turnover represents the invoiced amount of goods sold and services provided stated net of value added tax. The turnover and loss is attributable mainly to one activity, that of the production and distribution of poultry and convenience foods, and is mainly derived in the UK.

3 Exceptional items

During the later part of the year the company completed a reorganisation of its poultry processing operations.

4 Loss on ordinary activities before taxation

	Year to 31 May 2000 £000	8 months to 31 May 1999 £000
<i>Loss on ordinary activities before taxation is stated after charging:</i>		
Depreciation	6,545	3,510
Rentals payable under operating leases:		
Plant and machinery	598	419
Auditors' remuneration:		
Audit	38	30
Other services	45	44
<i>after crediting:</i>		
Grants released to profit and loss account	133	18
Gain on sale of fixed assets	62	374

Notes (continued)

5 Remuneration of directors

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. These emoluments were received from this company and its fellow subsidiaries.

6 Staff numbers and costs

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

	Number of employees	
	Year to 31 May 2000	8 months to 31 May 1999
Management, administration, sales and distribution	266	354
Production	2,983	2,971
	<u>3,249</u>	<u>3,325</u>

The aggregate payroll costs of these persons were as follows:

	Before exceptional items £000	Exceptional item £000	Year to 31 May 2000 £000	8 months to 31 May 1999 £000
Wages and salaries	43,817	4,242	48,059	29,532
Social security costs	2,825	274	3,099	2,189
Pension costs (note 22)	883	85	968	761
	<u>47,525</u>	<u>4,601</u>	<u>52,126</u>	<u>32,482</u>

7 Interest receivable and similar income

	Year to 31 May 2000 £000	8 months to 31 May 1999 £000
Bank interest receivable	337	-
Other	8	-
	<u>345</u>	<u>-</u>

Notes (continued)

8 Interest payable and similar charges

	Year to 31 May 2000 £000	8 months to 31 May 1999 £000
On bank loans and overdrafts	2,789	1,547
On finance leases and hire purchase contracts	255	135
On all other loans	39	222
	3,083	1,904

9 Taxation

	Year to 31 May 2000 £000	8 months to 31 May 1999 £000
Taxation based on the result for the period:		
Group relief	(1,608)	(2,602)
Prior year tax adjustments	205	(59)
	(1,403)	(2,661)

Notes (continued)

10 Tangible fixed assets

	Freehold land and buildings £000	Plant and machinery £000	Motor vehicles £000	Total £000
Cost				
At beginning of year	31,754	56,466	4,063	92,283
Additions	28	3,797	150	3,975
Disposals	(496)	(10,390)	(793)	(11,679)
Intra group transfers	-	(720)	247	(473)
Reclassifications	-	170	(170)	-
At end of year	31,286	49,323	3,497	84,106
Depreciation				
At beginning of year	12,434	37,158	3,192	52,784
Charge for year	702	5,442	401	6,545
On disposals	(34)	(8,987)	(944)	(9,965)
Intra group transfers	-	(605)	137	(468)
Reclassifications	-	170	(170)	-
At end of year	13,102	33,178	2,616	48,896
Net book value				
At 31 May 2000	18,184	16,145	881	35,210
At 31 May 1999	19,320	19,308	871	39,499

The net book value of fixed assets of £35,210,000 (1999: £39,499,000) includes £2,643,000 (1999: £3,136,000) in respect of assets held under finance leases and similar hire purchase agreements. A depreciation charge of £1,031,000 (1999: £629,000) has been made against these assets in the period.

Included in freehold land and buildings is £1,362,000 (1999: £1,562,000) of land which is not depreciated.

As part of the reorganisation referred to in note 3 a number of assets have been identified within the poultry processing operation that are now obsolete.

Notes (continued)

11 Fixed asset investments

<i>Cost</i>	Shares in group undertakings £000
At beginning and end of year	96
<i>Provision</i>	
At beginning and end of year	51
<i>Net book value</i>	
At 31 May 2000	45
At 31 May 1999	45

The non-trading subsidiary undertakings which are all wholly owned are:

<i>Subsidiary undertakings</i>	Country of incorporation	Principal activity	Percentage of ordinary shares held
Grain Brokers (Leith) Limited	Scotland	Non-trading	100%
Robert Miller (Denny) Limited	Scotland	Non-trading	100%
DB Marshall (Newbridge) Limited	Scotland	Non-trading	100%

12 Stocks

	2000 £000	1999 £000
Livestock	6,850	5,898
Raw materials and consumables	2,972	3,871
Finished goods and goods for resale	999	1,106
	10,821	10,875

13 Debtors

	2000 £000	1999 £000
<i>Amounts falling due within one year:</i>		
Trade debtors	3,808	8,542
Amounts owed by group undertakings	16,432	9,738
Other debtors	2,370	2,283
Prepayments and accrued income	392	1,116
<i>Amounts falling due outwith one year:</i>		
Pension prepayment	2	-
	23,004	21,679

Notes (continued)

14 Creditors: amounts falling due within one year

	2000	1999
	£000	£000
Bank loans and overdrafts	34,572	37,220
Obligations under finance leases and hire purchase contracts (note 15)	1,469	958
Trade creditors	13,731	11,659
Amounts owed to group undertakings	7,003	4,180
Other tax and social security	1,122	1,600
Other creditors	2,490	4,314
Accruals and deferred income	3,887	5,339
	<u>64,274</u>	<u>65,270</u>

The bank overdraft is secured by floating charges and standard securities over the company's assets.

15 Creditors: amounts falling due after more than one year

	2000	1999
	£000	£000
Obligations under finance leases and hire purchase contracts	1,234	2,324

Obligations under finance leases and hire purchase contracts are repayable as follows:

	2000	1999
	£000	£000
Within one year	1,469	958
Between two and five years	1,234	2,324
	<u>2,703</u>	<u>3,282</u>

16 Provisions for liabilities and charges

	Pensions and similar obligations £000
At beginning of year	618
Released during the year	(159)
At end of year	<u>459</u>

The amounts not provided for deferred taxation are set out below:

	Deferred taxation 2000	1999
	£000	£000
Total potential liability relating to accelerated capital allowances	270	3,836
Potential liability not provided for	(270)	(3,836)
Provided in the accounts	<u>-</u>	<u>-</u>

Notes (continued)

17 Accruals and deferred income

	2000 £000	1999 £000
<i>Capital grants</i>		
At beginning of period	682	700
Received during the period	721	-
Released to profit and loss account	(133)	(18)
At end of period	1,270	682

18 Called up share capital

	2000 £000	1999 £000
<i>Authorised Equity</i>		
Ordinary shares of £1 each	3,813	3,813
"A" Ordinary shares of £1 each	2,187	2,187
<i>Non equity</i>		
Preferred redeemable shares of £1 each	23,000	13,000
	29,000	19,000
<i>Allotted, called up and fully paid Equity</i>		
Ordinary shares of £1 each	2,818	2,818
"A" ordinary shares of £1 each	2,187	2,187
<i>Non equity</i>		
Preferred redeemable shares of £1 each	20,000	13,000
	25,005	18,005

On 31 May 2000, the company issued a further 7,000,000 preferred redeemable shares of £1 each at par for cash.

Rights attaching to the Preferred Redeemable Preference Shares in issue are as follows:

The Preferred Redeemable Shares carry a fixed dividend of 6 pence per annum. The Preferred Redeemable Shares are redeemable in 3 tranches of 2,000,000 commencing on 30 June 2001, with the balance falling due on 30 June 2004. The Company may redeem all or (in instalments of not less than 25,000 shares) some of the preference shares in advance of the due date.

The holders of these shares are not entitled to attend or vote at any general meeting.

The preference shares rank before the Ordinary and A Ordinary shares for dividends and on a winding up of the company. On a winding up of the company the preference shareholders are entitled to £1 per share together with any arrears of dividend.

The holder of the Preferred Redeemable Shares has waived the entitlement to dividends for the current and preceding year.

Notes (continued)

19 Reconciliation of movements in shareholders funds

	2000 £000	1999 £000
Loss for the financial period	(8,363)	(3,173)
New share capital subscribed	7,000	13,000
Net (reduction in) addition to shareholders' funds	(1,363)	9,827
At beginning of period	3,216	(6,611)
At end of period	1,853	3,216

20 Contingent liabilities

The company has granted to, and received from, all other trading subsidiaries of Grampian Country Food Group Limited, and that company, unlimited cross guarantees which are covered by floating charges and standard securities (amounting to £83,137,000 (1999: £97,567,000), secured in the first instance against the assets of the borrowing company).

21 Commitments

- (a) Capital commitments at the end of the financial period for which no provision have been made are as follows:

	2000 £000	1999 £000
Contracted	175	951

- (b) Annual commitments for items other than land and buildings under non-cancellable, operating leases are as follows:

	2000 £000	1999 £000
Operating leases which expire:		
Within one year	30	75
In the second to fifth years	463	363
Over five years	155	84
	648	522

Notes (continued)

22 Pension costs

The pension cost charge for the period was £968,000 (1999: £761,000), made up of a regular cost of £1,126,000 (1999: £827,000) less variation from regular cost of £158,000 (1999: £66,000). Variation from regular cost represents the amortisation of the additional actuarial surplus identified in the most recent actuarial valuation.

A provision of £459,000 (1999: £618,000) is included within provisions for liabilities and charges, being the excess of the accumulated pension cost over the amount funded.

The pension cost and related provision are assessed in accordance with the advice of a professionally qualified actuary. The latest actuarial valuation was at 1 October 1996 and used the projected unit credit method. The main actuarial assumptions were that salaries would increase by 5.5% per annum, pensions in payment would increase as guaranteed in the scheme rules, and the return on scheme investments would be 8.5% per annum. The assets of the Group Scheme were £27,313,000 and were sufficient to cover 115% of the benefits that had accrued to members after allowing for expected future increases in earnings.

An interim review was undertaken by the actuary at 1 June 1997, which indicated that contributions should be made to the scheme from 1 October 1997. The company has complied with this advice.

23 Ultimate parent undertaking

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 this 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.