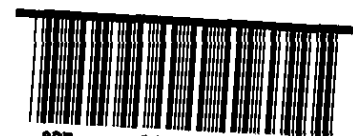


Marshall Food Group Limited

**Directors' report and financial
statements**

Registered number *Sc* 34389

31 May 2002



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Contents

Directors' report	1
Statement of directors' responsibilities	3
Independent auditors' report to the members of Marshall Food Group Limited	4
Profit and loss account	5
Balance sheet	6
Notes	7

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 are the production of chicken and the manufacture of convenience foods.

Business review

Trading conditions have remained difficult throughout the year and in May the closure of the Newbridge site was announced. This has led to exceptional costs and a number of redundancies.

Dividends and transfer to reserves

The profit and loss account on page 5 shows a loss after taxation for the financial year of £5,466,000 (2001: £1,452,000). 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. Mr Duncan, Mr Hopley and Mr Smith are directors of the company's ultimate holding company and their interests in the shares of that company are shown in the directors' report. Mr Imray does not have 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

KPMG have transferred their business 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. 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

20 Queen's Road
Aberdeen
AB15 4ZT

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.



37 Albyn Place
Aberdeen
AB10 1JB
United Kingdom

Independent auditors' report to the members of Marshall Food Group Limited

We have audited the financial statements on pages 5 to 17.

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 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 affairs of the company as at 31 May 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink that reads 'KPMG LLP'.

KPMG LLP
Chartered Accountants
Registered Auditor

6 November 2002

Profit and loss account
for the year ended 31 May 2002

	Note	Before exceptional costs £000	Exceptional items (note 3) £000	2002 £000	2001 £000
Turnover	2	248,629	-	248,629	225,576
Change in stocks of finished goods and goods for resale		114	-	114	1,090
Raw materials and consumables		(148,594)	-	(148,594)	(132,313)
Staff costs	6	(45,721)	(2,666)	(48,387)	(41,465)
Depreciation and other amounts written off tangible fixed assets		(4,869)	(172)	(5,041)	(4,845)
Other operating charges		(47,990)	(5,282)	(53,272)	(47,959)
		(247,060)	(8,120)	(255,180)	(225,492)
Operating profit (loss)		1,569	(8,120)	(6,551)	84
Interest receivable and similar income	7			138	126
Interest payable and similar charges	8			(2,792)	(3,151)
Loss on ordinary activities before taxation	4			(9,205)	(2,941)
Taxation on loss on ordinary activities	9			3,739	1,489
Loss on ordinary activities after taxation for the financial year				(5,466)	(1,452)
Retained loss brought forward				(24,604)	(23,152)
Retained loss carried forward				(30,070)	(24,604)

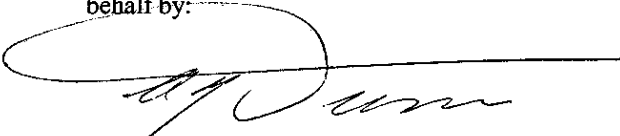
All figures relate to continuing operations.

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

Balance sheet
at 31 May 2002

	<i>Note</i>	2002		2001
		£000	£000	£000
Fixed assets				
Tangible assets	10	34,876		35,373
Investments in subsidiary undertakings	11	45		45
		<u>34,921</u>		<u>35,418</u>
Current assets				
Stocks	12	13,524	13,427	
Debtors	13	24,120	22,641	
Cash at bank and in hand		8	11	
		<u>37,652</u>	<u>36,079</u>	
Creditors: amounts falling due within one year	14	<u>(67,820)</u>	<u>(67,867)</u>	
Net current liabilities		<u>(30,163)</u>		<u>(31,788)</u>
Total assets less current liabilities		<u>4,753</u>		<u>3,630</u>
Creditors: amounts falling due after more than one year	15	(1,839)		(1,750)
Provisions for liabilities and charges	16	(300)		(501)
Accruals and deferred income	17	(679)		(978)
Net assets		<u>1,935</u>		<u>401</u>
Capital and reserves				
Called up share capital	18	32,005	25,005	
Profit and loss account		<u>(30,070)</u>	<u>(24,604)</u>	
Shareholders' funds				
Equity		(25,065)	(19,599)	
Non-equity		<u>27,000</u>	<u>20,000</u>	
	19	<u>1,935</u>		<u>401</u>

These financial statements were approved by the board of directors on 6 November 2002 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. The company has adopted Financial Reporting Standard 19 *Deferred Tax* in these financial statements. No adjustments were required to the comparative figures.

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 company operates a pension scheme providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the company. 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 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 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 costs

During the year the company announced a redundancy programme in its prepared foods operations (£848,000). In May 2002, it also announced the closure of its chicken operations at Newbridge – some of the production from the site has been transferred to other group operating units. The closure costs (£7,272,000) have been treated as exceptional items.

4 Loss on ordinary activities before taxation

	2002 £000	2001 £000
<i>Loss on ordinary activities before taxation is stated after charging:</i>		
Depreciation	5,331	5,152
Rentals payable under operating leases:		
Plant and machinery	303	581
Auditors' remuneration:		
Audit	62	34
Other services	4	54
Loss on sale of fixed assets	9	-
<i>after crediting:</i>		
Grants released to profit and loss account	299	292
Gain on sale of fixed assets	-	15

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	
	2002	2001
Management, administration, sales and distribution	293	260
Production	2,614	2,354
	2,907	2,614

The aggregate payroll costs of these persons were as follows:

	2002	2001
	£000	£000
Wages and salaries	44,763	37,869
Social security costs	2,884	2,782
Pension costs (note 22)	740	814
	48,387	41,465

7 Interest receivable and similar income

	2002	2001
	£000	£000
Bank interest receivable	138	126
Interest receivable from group undertakings	-	170
	138	296

Notes (continued)

8 Interest payable and similar charges

	2002 £000	2001 £000
On bank loans and overdrafts	2,490	2,980
On finance leases and hire purchase contracts	248	171
Interest payable to group undertakings	16	170
Other interest payable	38	-
	<u>2,792</u>	<u>3,321</u>

9 Taxation

Tax on profit on ordinary activities

	2002 £000	2001 £000
Analysis of credit in year		
<i>Current tax</i>		
UK corporation tax relief on loss for the year	(3,490)	(1,355)
Adjustments in respect of previous years	(249)	(134)
Tax credit on loss on ordinary activities	<u>(3,739)</u>	<u>(1,489)</u>

The tax credit arising differs from that obtained by applying the standard rate of corporation tax in the UK (30%).
The differences are explained below:

	2002 £000	2001 £000
Loss on ordinary activities before taxation	<u>(9,208)</u>	<u>(2,941)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	(2,762)	(882)
<i>Effects of:</i>		
Movement in unprovided deferred tax asset (note 16)	(659)	(724)
Expenses disallowable for tax purposes	29	181
Other miscellaneous differences	(98)	70
Adjustments to tax charge in respect of previous periods	(249)	(134)
Current tax credit for period	<u>(3,739)</u>	<u>(1,489)</u>

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	31,704	55,068	2,108	88,880
Additions	578	4,003	236	4,817
Disposals	(25)	(858)	(415)	(1,298)
Intra group transfers	-	122	(14)	108
At end of year	32,257	58,335	1,915	92,507
Depreciation				
At beginning of year	13,952	37,836	1,719	53,507
Charge for year	739	4,354	238	5,331
On disposals	(13)	(854)	(369)	(1,236)
Intra group transfers	-	34	(5)	29
At end of year	14,678	41,370	1,583	57,631
Net book value				
At 31 May 2002	17,579	16,965	332	34,876
At 31 May 2001	17,752	17,232	389	35,373

The net book value of fixed assets of £34,876,000 (2001: £35,373,000) includes £4,801,000 (2001: £3,733,000) in respect of assets held under finance leases and similar hire purchase agreements. A depreciation charge of £1,015,000 (2001: £750,000) has been made against these assets in the period.

Included in freehold land and buildings is £1,512,000 (2001: £1,485,000) of land which is not depreciated.

Notes (continued)

11 Fixed asset investments

	Shares in group undertakings £000
Cost	
At beginning and end of year	96
Provision	
At beginning and end of year	51
Net book value	
At 31 May 2002	45
At 31 May 2001	45

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

	Country of incorporation	Principal activity	Percentage of ordinary shares held
Subsidiary undertakings			
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

	2002 £000	2001 £000
Livestock	7,942	8,457
Raw materials and consumables	2,850	2,881
Finished goods and goods for resale	2,732	2,089
	13,524	13,427

13 Debtors

	2002 £000	2001 £000
Amounts falling due within one year:		
Trade debtors	5,672	5,146
Amounts owed by group undertakings	16,276	16,175
Other debtors	945	906
Prepayments and accrued income	1,226	409
Amounts falling due outwith one year:		
Pension prepayment	24,119	22,636
	1	5
	24,120	22,641

Notes (continued)

14 Creditors: amounts falling due within one year

	2002	2001
	£000	£000
Bank loans and overdrafts	28,176	33,322
Obligations under finance leases and hire purchase contracts (note 16)	1,766	1,570
Trade creditors	9,410	9,561
Corporation tax	-	175
Amounts owed to group undertakings	14,804	16,088
Other tax and social security	960	1,051
Other creditors	8,244	1,208
Accruals and deferred income	4,460	4,892
	<u>67,820</u>	<u>67,867</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

	2002	2001
	£000	£000
Obligations under finance leases and hire purchase contracts	1,839	1,750

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

	2002	2001
	£000	£000
Within one year	1,766	1,570
Within two to five years	1,839	1,750
	<u>3,605</u>	<u>3,320</u>

16 Provisions for liabilities and charges

	Pensions and similar obligations £000
At beginning of year	501
Decrease in provision	(201)
At end of year	<u>300</u>

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

	Deferred taxation	
	2002	2001
	£000	£000
Total potential liability relating to accelerated capital allowances	926	316
Corporation tax losses	(4,178)	(4,178)
Other timing differences	(118)	(167)
Undiscounted asset	(3,370)	(4,029)
Deferred tax asset not recognised	(3,370)	(4,029)

Notes (continued)

17 Accruals and deferred income

	2002 £000	2001 £000
<i>Capital grants</i>		
At beginning of year	978	1,270
Received during the year	-	-
Released to profit and loss account	(299)	(292)
	679	978
At end of year	679	978

18 Called up share capital

	2002 £000	2001 £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	30,000	23,000
	36,000	29,000
<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	27,000	20,000
	32,005	25,005

On 31 May 2002 the company created and subsequently issued at par for cash 7,000,000 preferred redeemable shares of £1 each raking *pari passu* with the existing preferred redeemable shares.

Rights attaching to the Preferred Redeemable 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 company was unable to redeem the first tranche of £2,000,000 on 30 June 2001 and was also unable to redeem the second tranche of £2,000,000 on 30 June 2002.

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

	2002 £000	2001 £000
Loss for the financial year	(5,466)	(1,452)
New share capital subscribed	7,000	-
Net addition to (reduction in) shareholders' funds	1,534	(1,452)
At beginning of year	401	1,853
At end of year	1,935	401

20 Contingent liabilities

The company has granted to and received from Grampian Country Food Group Limited and all its other trading subsidiaries unlimited cross guarantees which are covered by floating charges and standard securities (amounting to £110,914,000 (2001: £69,596,000)), 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:

	2002 £000	2001 £000
Contracted	1,033	1,518

- (b) Annual commitments for items under non-cancellable, operating leases are as follows:

	Land and buildings		Other	
	2002 £000	2001 £000	2002 £000	2001 £000
Operating leases which expire:				
Within one year	-	-	56	139
In the second to fifth years	754	12	531	427
Over five years	-	-	41	56
	754	12	628	622

Notes (continued)

22 Pension costs

Marshall Group Pension and Life Assurance Scheme

An actuarial valuation was completed as at 1 October 1998. The projected unit method was applied as the principal assumptions made 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 actuarial valuation indicated that the level of funding as at the valuation date was 115%.

The company is making contributions to the scheme in line with an interim review carried out by the actuary as at 1 June 1997. The surplus is being spread over the average remaining service lives of the employees. At 31 May 2002 the pension provision held in the balance sheet is £300,000 (2001: £501,000). There is a pension charge in the year of £632,000 (2001: £608,000) and this includes a credit of £188,000 (2001: £181,000) arising from these variations in pension cost.

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 Financial Reporting Standard (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.

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 are 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	8,100
International Bonds	7.0	1,800
UK Equities	8.0	15,800
International Equities	8.0	9,100
Property	8.0	-
Cash	5.3	300
Total	7.8	35,100

Notes (continued)

22 Pension costs (continued)

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	35,100
Present value of scheme liabilities	(44,200)
Deficit in the scheme	(9,100)
Related deferred tax assets	2,700
Net pension liability	(6,400)

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.

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.