

24168

Directors' Report and Accounts

148

JOHN MORRELL & COMPANY LIMITED

31 DECEMBER 1977

Certified a true and fair copy of the accounts of
John Morrell & Company Limited for the year ended
31st December, 1977.

B. Stead,

Chairman



R. H. ...

Secretary

Price
Waterhouse & Co.

JOHN MORRELL & COMPANY LIMITED

31 DECEMBER 1977

JOHN MORRELL & COMPANY LIMITED

CHAIRMAN'S REPORT

Ownership

The highlight of the year, our 150th, was the change of ownership of the Company. In an act of selfless generosity, Mr A Claude Morrell, the last surviving member of the Morrell family to be associated with the Company, bought the Company's equity from United Brands and presented it to a discretionary trust the principal purpose of which is to ensure the continued existence of the Company as a trading entity for the benefit of all its employees. Thus the Company ceased to be owned by a multi-national company and is now once again British owned and controlled. As a mark of our deep felt gratitude Mr Morrell was invited to become our first Life President and he graciously bestowed on us the honour of accepting that office.

A Board of Trustees has been appointed to administer the trust and we are most fortunate that the five members of that Board combine to give wide experience of finance, industrial relations, trusts, industry and commerce. Mr Morrell is to be congratulated upon his wise choice.

Financial

As a consequence of the change of ownership our highly-g geared financial structure had to be reorganised. No longer could we depend on inter-group loans and guarantees to provide the working capital required in the cash hungry industry of fruit and vegetable canning.

Authorised capital was increased on September 30, 1977 to £1,767,800 by the creation of 750,000 ordinary shares of £1 each and 400,000 'A' and 400,000 'B' convertible cumulative redeemable participating preference shares of £1 each.

£750,000 of reserves were capitalised and distributed to the holders of the ordinary shares as held on September 29, 1977. The 217,800 issued ordinary shares were converted into 217,800 deferred shares.

Investments in our Company totalling £1,500,000 have been made by Midland Industrial Investments Limited and Industrial and Commercial Finance Corporation Limited. Each has subscribed £400,000 for Preference Shares of £1 each and £350,000 loan repayable 1981/1985.

As a consequence of these investments I am very pleased to welcome Miss Zena Owens and Mr Geoffrey Scarlett as non-executive members of our Board of Directors. It is most appropriate for our business to have a lady on the Board and the wise counsel of both will be of much benefit to us all.

The support we have received from our bankers, First National Bank of Chicago and Barclays Bank, with the granting of overdraft facilities up to an amount £3,500,000 is most gratifying. This continued relationship, in both cases now covering a period of over 100 years, put the final success seal on the viability of the new structure under the Morrell Trust.

CHAIRMAN'S REPORT (CONTINUED)

Results

Sales turnover increased by 6% to £15,149,000 (volume decrease 11%) in the 52 weeks (1976 - 53 weeks) and profit before tax, currency differences and extraordinary items increased by 5% to £423,154.

Merchanted goods, with minimal working capital requirements, reflected a very healthy increase in profit contribution. Those responsible for this section of our activities are to be congratulated on a most commendable profit maximising performance.

Canned fruit and vegetables downturn in profitability reflects in the main the depressing trading conditions. Arising from the 1976 production shortfall in several seasonal packs (hot summer limited availability of raw materials) volume sales in the first half of the year were seriously affected by out-of-stock situations. There was a complete volte-face in the second half of the year. After the dearth of the previous year we had an abundance of raw materials. In line with past behaviour, canners over-reacted aided by additional supplies diverted from a processor with industrial trouble, filling warehouses with canned goods. With low priced fresh vegetables available, offtake fell leading to price cutting of Branded products. Brands were already receiving a stimulus in the High Street price war for on such products a true calibration of price cuts could be set. Low priced brands available did lead to many buyers taking up offers leaving canners carrying private label product. Action to correct our costly over stock position, adding to the inherent high demands on our working capital resources of this section of our business, was slow in developing due to management in Boston USA assuming overall control for a critical period of five months during the year. When action was taken we suffered considerable unrecovered production overheads.

Pet Food trading resulted in a 50% increase in contribution. This reflected a sensible approach to the marketing of products with availability restrictions.

Spring products sales turnover increased some 20% (volume 5% shortfall). With productive capacity on the preserves line not being fully utilised profit was only marginally ahead.

Extraordinary items in the amount of £73,626 represent stamp duty, legal and other professional charges arising from the change of ownership and financial restructuring.

Inflation Accounting

Changing price levels associated with inflation seriously distort results shown by accounts drawn up on the conventional historical cost basis.

CHAIRMAN'S REPORT (CONTINUED)

Inflation Accounting (continued)

A high proportion of our fixed assets has been in use for many years. Revising the historical cost of fixed assets to current cost reveals that the base upon which annual depreciation is computed is more than doubled, thus a depreciation adjustment is necessary.

A further adjustment is required for the difference between the current cost of stock at the date of sale and the amount charged in computing the historical cost result.

After taking account of that proportion of the depreciation and cost of sales adjustments attributable to our net monetary liabilities (preference and loan capital etc) there is a need to provide £205,123 from current revenues in showing profit attributable to our shareholders. Retained profit for the period as shown by the conventional basis in the amount of £156,286 becomes a deficit of £48,837.

Future Outlook

As I write this report there is no indication of a change of conditions in the market place. If past experience is repeated, the February severe cold spell could stimulate offtake of canned fruit and vegetables but suffice it to say I am expecting a difficult trading year. There will be considerable carry-overs of stock into the new season and plans to cut-back our 1978 garden pea production are well in hand. Trade Association work on generic advertising and strengthening of the sales contract receives our active support. Increased pet food production is receiving urgent consideration as is greater utilisation of Spring Preserve production facilities.

On our side is product diversification and whilst it would be wrong to expect a 1978 repeat of such excellent results in the merchanted section, it is our aim to maximise profits from whatever opportunities present themselves in all sections of our trade. Inevitably there were mistakes in 1977; these we can correct in 1978 with beneficial results.

As indicated earlier, many of our fixed assets are ageing and high capital costs at Bardney and Brigg plants are planned in the current year. These include a considerable amount on effluent which, whilst to us it is money down the drain and reflects a change in Water Authorities attitudes since we acquired Brigg plant early 1973, is necessary from environmental and social points of view.

Considerable structural maintenance is planned for both plants and a further necessary revenue expense will arise from the welcome introduction of an operatives pension scheme from April 1st next. We visualise a negative cash flow in 1978.

CHAIRMAN'S REPORT (CONTINUED)

Future Outlook (continued)

No one year's trading should be looked at in isolation. Our company is an on-going concern. Cycles occur in most businesses and none more so than in ours. It is the long-term basic strengthening of the foundation that helps hold our position when the cycle is at a low ebb, ready to move forward when the tide turns. Affecting this normal trade cycle are the distortions caused by government bureaucratic interference.

Thus the peaks are flattened and yet the full force of depression borne - a levelling down. I believe we, all employees, have a strength of purpose, an identification with our company, a desire to economise wherever possible all of which will help us weather any storm.

Finally a thank you to all employees who by their efforts have contributed to the profitable build up of the Company over the last several years making it possible for our wonderful benefactor, Mr A Claude Morrell to act in the truly magnificent way that he did.

Brian Stead,

BRIAN STEAD
Chairman

JOHN MORRELL & COMPANY LIMITED

REPORT OF THE DIRECTORS FOR THE FIFTY-TWO
WEEKS ENDED 31 DECEMBER 1977

The directors have pleasure in submitting their report to the members together with the audited statement of accounts for the fifty-two weeks ended 31 December 1977.

The profit for the period after taxation
and extraordinary item was

182,286

From which dividends have been paid:

On ordinary shares

4,000

On preference shares

22,000

26,000

Leaving retained profit for the period of

156,286

To which must be added the balance
brought forward of

1,027,575

1,183,861

From which a transfer has been made to
share capital of

750,000

Leaving a balance to be carried forward of

£ 433,861

ACTIVITIES

The business of the group consists of the manufacture, importation, storage and distribution of foodstuffs.

FIXED ASSETS

Particulars of changes in the fixed assets of the group and of the company are set out in Notes 9 and 10 to the attached accounts.

ISSUE OF SHARE CAPITAL

On 30 September 1977 the company converted its 217,800 ordinary shares of £1 each into 217,800 deferred shares of £1 each and capitalised £750,000 of its profits by the issue of 750,000 ordinary shares of £1 each. On the same date it issued 400,000 £1 'A' and 400,000 £1 'B' 11% Convertible Cumulative Redeemable Participating Preference Shares for a total consideration of £800,000. This amount together with secured loans of £700,000 subscribed at the same time has been used to provide working capital in place of loans from the previous holding company.

JOHN MORRELL & COMPANY LIMITED

REPORT OF THE DIRECTORS FOR THE FIFTY-TWO
WEEKS ENDED 31 DECEMBER 1977 (CONTINUED)

DIRECTORS AND DIRECTORS' INTERESTS

The following persons were directors of the company during the period:

B Stead (Chairman)
G McBroom
AJ Lambert
RV Cornish
JA Lemon
RL Hollowood
ZM Owens (appointed 1 October 1977)

GW Scarlett was appointed a director on 1 January 1978

The directors have no interest in the shares of group companies other than as employees of the company in which capacity they are beneficiaries under the settlement created during the year for the benefit of all employees.

EMPLOYEES

The average number of employees of the company and its subsidiaries was 636 (1976-669) and the aggregate remuneration payable to them in respect of the fifty-two weeks was £1,607,226 (1976 - fifty-three weeks - £1,513,120).

EXPORTS

Sales during the period included exports amounting to £48,818 (1976 - £87,820).

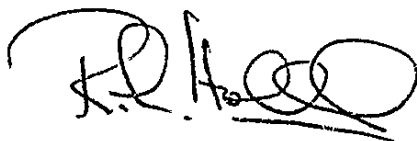
CHARITABLE AND POLITICAL DONATIONS

Charitable contributions for the period amounted to £291 (1976 - £210). There were no political donations during the period (1976 - none).

AUDITORS

The auditors, Price Waterhouse & Co are not seeking re-election. A resolution to appoint Deloitte & Co to fill the vacancy will be put to the Annual General Meeting.

On behalf of the Board



RL Hollowood
Secretary

24 February 1978

JOHN MORRELL & COMPANY LIMITED

REPORT OF THE DIRECTORS FOR THE FIFTY-TWO
WEEKS ENDED 31 DECEMBER 1977 (CONTINUED)

DIRECTORS AND DIRECTORS' INTERESTS

The following persons were directors of the company during the period:

B Stead (Chairman)
G McBroom
AJ Lambert
RV Cornish
JA Lemon
RL Hollowood
ZM Owens (appointed 1 October 1977)

GW Scarlett was appointed a director on 1 January 1978

The directors have no interest in the shares of group companies other than as employees of the company in which capacity they are beneficiaries under the settlement created during the year for the benefit of all employees.

EMPLOYEES

The average number of employees of the company and its subsidiaries was 636 (1976-669) and the aggregate remuneration payable to them in respect of the fifty-two weeks was £1,607,226 (1976 - fifty-three weeks - £1,513,120).

EXPORTS

Sales during the period included exports amounting to £48,818 (1976 - £87,820).

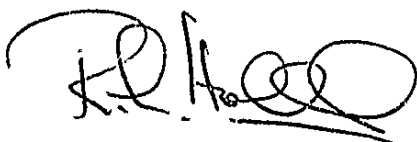
CHARITABLE AND POLITICAL DONATIONS

Charitable contributions for the period amounted to £291 (1976 - £210). There were no political donations during the period (1976 - none).

AUDITORS

The auditors, Price Waterhouse & Co are not seeking re-election. A resolution to appoint Deloitte & Co to fill the vacancy will be put to the Annual General Meeting.

On behalf of the Board



RL Hollowood
Secretary

24 February 1978



SILKHOUSE COURT,
TITHEBARN STREET,
LIVERPOOL L2 2LJ

AUDITORS' REPORT TO THE MEMBERS OF
JOHN MORRELL & COMPANY LIMITED

Subject to the outcome of a dispute between the Inland Revenue and a subsidiary company referred to in note 15 regarding the availability of losses which have been used to relieve the taxation liabilities of the subsidiary by £168,000 in our opinion the annexed accounts which have been prepared under the historical cost convention give, under that convention, a true and fair view of the state of affairs of the company and the group at 31 December 1977 and of the profit and source and application of funds of the group for the fifty-two weeks then ended and comply with the Companies Acts 1948 and 1967.

We have examined the annexed current cost statement together with the notes thereon for the fifty-two weeks ended 31 December 1977. Subject to the uncertainty surrounding the taxation charge referred to above in our opinion the statement has been properly prepared, in accordance with the method set out in the notes, to give the information proposed in the Accounting Standards Committee's Interim Recommendation on Inflation Accounting of November 1977.

Price Waterhouse & Co.

Chartered Accountants

24 February 1978

JOHN MORRELL & COMPANY LIMITED
AND ITS SUBSIDIARIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR
THE FIFTY-TWO WEEKS ENDED 31 DECEMBER 1977

Fifty-three weeks ended
1 January 1977

Notes

£14,305,599

SALES (Note 1f)

£15,149,517

304,803

PROFIT ON TRADING AFTER TAKING INTO
ACCOUNT THE ITEMS SHOWN BELOW:

440,845

After charging/(crediting) the following:

	Directors' emoluments	2	
-	Fees		1,250
81,167	Remuneration as executives		79,123
8,297	Auditors' remuneration		7,822
117,132	Depreciation		121,938
61,805	Hire of machinery		34,262
387,574	Short term loan and bank interest		327,864
-	Long term loan interest		27,236
7,241	Amount written off deferred asset		7,735
	(Profit)/loss arising on revaluation		
84,637	or repayment of dollar accounts		(17,691)
(7,901)	Profit on sale of fixed assets		(9,769)

304,803

PROFIT FOR THE PERIOD BEFORE TAXATION
AND EXTRAORDINARY ITEM

440,845

LESS: TAXATION

3

.132	Corporation tax	-
139,410	Transfer to/(from) deferred taxation:	
(2,000)	Current year	187,152
-	Prior years	(1,639)
	Overprovision in respect of prior years	(580)

137,542

184,933

167,261

PROFIT FOR THE PERIOD AFTER TAXATION
AND BEFORE EXTRAORDINARY ITEM

4

255,912

-

DEDUCT: EXTRAORDINARY ITEM

5

73,626

167,261

PROFIT FOR THE PERIOD AFTER TAXATION AND
EXTRAORDINARY ITEM

182,286

-

DIVIDENDS

6

26,000

167,261

RETAINED PROFIT FOR THE PERIOD

156,286

707,401

ADD BALANCE BROUGHT FORWARD

152,913

JOHN MORRELL & COMPANY LIMITED
SUBSIDIARIES

800,447

227,128

860,314

1,027,575

1,027,575

1,183,861

-

TRANSFER TO SHARE CAPITAL

7

750,000

800,447

BALANCE CARRIED FORWARD

227,128

JOHN MORRELL & COMPANY LIMITED
SUBSIDIARIES

133,550

300,311

£ 1,027,575

£ 433,861

JOHN MORRELL & COMPANY LIMITED
AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 1977

1 January 1977

217,800

SHARE CAPITAL

Notes

7

1,767,800

REVENUE RESERVES

48,931
1,027,575

General reserve
Profit and loss account

48,931
433,861

1,076,506

1,294,306

482,792

2,250,592

700,000

182,398
532,410

LOAN CAPITAL
LOAN FROM HOLDING COMPANY
John Morrell & Company
DEFERRED TAXATION

8

704,529

£2,009,114

CAPITAL EMPLOYED

£3,655,121

REPRESENTED BY:

585,782

FIXED ASSETS

9

548,387

207

UNQUOTED TRADE INVESTMENT at cost

12

207

12,178

DEFERRED ASSET

4,443

CURRENT ASSETS

3,821,700

Stock
Policy on the life of a former
director at surrender value
Debtors and prepayments
Bank balances and cash

13 4,424,143

35,530

36,188

1,613,182

1,808,653

2,583

4,505

5,472,995

6,273,489

CURRENT LIABILITIES

Amount due to parent companies
AC Morrell Limited

205

390,068

John Morrell & Company

303,478

Amount due to fellow subsidiary

1,957,069

Bank loan and overdrafts (secured)

14

1,548,988

1,410,723

Creditors and accrued expenses

1,608,818

710

Current taxation

13,394

4,062,048

3,171,405

NET CURRENT ASSETS

3,102,084

1,410,947

B. Stead.
RL Hollowood

B Stead)
RL Hollowood) Directors

£2,009,114

£3,655,121

JOHN MORRELL & COMPANY LIMITED

BALANCE SHEET AT 31 DECEMBER 1977

1 January 1977

Notes

217,800	SHARE CAPITAL	7	1,767,800
	REVENUE RESERVES		
48,931	General reserves	48,931	
800,447	Profit and loss account	133,550	
849,378			182,481
1,067,178			1,950,281
	LOAN CAPITAL	8	700,000
182,398	LOAN FROM HOLDING COMPANY		
532,410	John Morrell & Company		-
	DEFERRED TAXATION		704,529
£1,781,986	CAPITAL EMPLOYED		£3,354,810
	REPRESENTED BY:		
425,891	FIXED ASSETS	10	389,671
	INVESTMENT IN SUBSIDIARIES		
31,002	Shares at cost less amounts written off	31,002	
423,000	Loan account	423,000	
454,002			454,002
207	UNQUOTED TRADE INVESTMENT at cost	12	207
	CURRENT ASSETS		
3,374,357	Stock	13	4,031,211
35,530	Policy on the life of a former		
1,596,380	director at surrender value	36,188	
2,446	Debtors and prepayments	1,796,419	
	Bank balances and cash	4,360	
5,008,713		5,868,178	
	CURRENT LIABILITIES		
	Amount due to holding company		
-	AC Morrell Limited	205	
390,068	John Morrell & Company	-	
303,478	Amount due to fellow subsidiary	-	
	Amount due to own subsidiaries on		
432,825	current accounts	539,185	
1,940,379	Bank loan and overdrafts (secured)	14	1,533,529
1,040,077	Creditors and accrued expenses	1,270,935	
-	Current taxation	13,394	
4,106,827		3,357,248	
901,886	NET CURRENT ASSETS		2,510,930
£1,781,986			£3,354,810

B. Stead B Stead)
RL Hollowood RL Hollowood) Directors

MORRELL & COMPANY LIMITED AND ITS SUBSIDIARIES

STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE FIFTY-TWO WEEKS ENDED 31 DECEMBER 1977

	£	£	53 weeks ended 1 January 1977 £
SOURCE OF FUNDS			
Profit before taxation		440,845	304,803
Extraordinary item		<u>(73,626)</u>	<u>-</u>
		367,219	304,803
Adjustments for items not involving the movement of funds:			
Depreciation	121,938		117,132
Amount written off deferred asset	7,735		7,241
Profit on sale of fixed assets	(9,769)		(7,901)
Loss on revaluation of loan from holding company	<u>-</u>		<u>29,123</u>
		<u>119,904</u>	<u>145,595</u>
TOTAL GENERATED FROM OPERATIONS		487,123	450,398
FUNDS FROM OTHER SOURCES			
Additional share capital	800,000		-
Loan capital	700,000		-
Proceeds of sale of fixed assets	<u>34,024</u>		<u>22,473</u>
		<u>1,534,024</u>	<u>22,473</u>
		2,021,147	472,871
APPLICATION OF FUNDS			
Purchase of fixed assets	108,798		121,701
Amount repaid to former group companies	693,546		-
Tax paid	130		-
Dividends paid	26,000		-
Loan repaid	<u>182,398</u>		<u>-</u>
		<u>1,010,872</u>	<u>121,701</u>
		1,010,275	351,170
INCREASE/DECREASE IN WORKING CAPITAL			
Increase (decrease) in stock	602,443		495,204
Increase (decrease) in debtors	196,129		(50,989)
(Increase) in amounts due to group companies	(205)		(62,872)
(Increase) decrease in creditors	<u>(198,095)</u>		<u>25,501</u>
		<u>600,272</u>	<u>406,844</u>
Movement in net liquid funds:		<u>410,003</u>	<u>(55,674)</u>
REPRESENTED BY:			
Increase (decrease) in cash balance		1,922	1,679
(Increase) decrease in bank overdraft		<u>408,081</u>	<u>(57,353)</u>
		<u>410,003</u>	<u>(55,674)</u>

JOHN MORRELL & COMPANY LIMITED

NOTES TO THE ACCOUNTS FOR THE FIFTY-TWO
WEEKS ENDED 31 DECEMBER 1977

1 ACCOUNTING POLICIES

The main accounting policies of the company and its subsidiaries which have been consistently applied are as follows:

(a) Depreciation

Depreciation on fixed assets is provided over the expected useful lives of these assets on a straight line basis except where stated at the following rates:

Freehold property	= 5% on net book amount
Leasehold property	= Amortised over the remainder of the lease
Plant and machinery	= 12½%
Motor cars	= 25%
Motor lorries	= 20%

(b) Stock valuation

Stocks are included in the accounts at the lower of cost and net realisable value. Cost includes all direct charges in bringing goods up to the point of distribution including a proportion of attributable factory production overheads, handling and storage costs.

(c) Amounts set aside for deferred taxation

The amounts set aside for deferred taxation under the deferral method represent adjustments made for the effect of taxation deferred by accelerated capital allowances and of items allocated for taxation purposes to periods other than the current accounting period including stock appreciation relief.

(d) Foreign currencies

Assets and liabilities in foreign currencies are expressed in sterling at the rates ruling at the company's year end.

(e) Pensions

Pensions are provided by means of an insured scheme. The directors estimate that at 31 December 1977 there was a funding deficiency of £10,000.

(f) Sales

The figures shown in the consolidated profit and loss account are amounts receivable by the group for goods supplied to customers in the ordinary course of business.

JOHN MORRELL & COMPANY LIMITED

NOTES TO THE ACCOUNTS FOR THE FIFTY-TWO WEEKS ENDED 31 DECEMBER 1977 (CONTINUED)

2 DIRECTORS' EMOLUMENTS EXCLUDING PENSION CONTRIBUTIONS

The emoluments of the Chairman who was also the highest paid director during the period were £16,284 (1976 - £15,712)

The emoluments of the directors employed in the United Kingdom fell into the following brackets:-

		Fifty-two weeks ended 31 December 1977	Fifty-three weeks ended 1 January 1977
£Nil	- £2,500	1	-
£5,001	- £7,500	-	1
£7,501	- £10,000	1	3
£10,001	- £12,500	3	1
£12,501	- £15,000	1	1
£15,001	- £17,500	1	1

3 TAXATION

Tax has been provided at the rate of 52% (1976 - 52%) on the profits for the period after taking benefit of £39,000 (1976 £35,000) in respect of relief for losses brought forward from the trade which Spring Food Products Limited took over from Spring & Company Limited.

4 PROFIT FOR THE PERIOD AFTER TAXATION

	<u>1977</u>	<u>1976</u>
The profit for the period has been dealt with as follows:		
Included in the accounts of John Morrell & Company Limited	182,729	93,046
Retained by subsidiaries	73,183	74,215
	<u>£255,912</u>	<u>£167,261</u>

5 EXTRAORDINARY ITEM

The extraordinary item consists of expenditure incurred on professional fees and other charges in connection with the change of ownership of the company.

JOHN MORRELL & COMPANY LIMITED

NOTES TO THE ACCOUNTS FOR THE FIFTY-TWO
WEEKS ENDED 31 DECEMBER 1977 (CONTINUED)

6 DIVIDENDS

	<u>1977</u>	<u>1976</u>
Ordinary dividend of £4,000 net paid	4,000	"
Dividend for the quarter ended 31 December 1977 on:		
£400,000 'A' preference shares	11,000	-
£400,000 'B' preference shares	11,000	-
	<u>£26,000</u>	<u>£ -</u>

7 SHARE CAPITAL

	Ordinary Shares of £1 each	Deferred Shares of £1 each	'A' Con- vertible Cumulative Redeemable Participating Preference Shares of £1 each	'B' Con- vertible Cumulative Redeemable Participating Preference Shares of £1 each
	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>
At 1 January 1977	217,000	-	-	-
30 September 1977: Conversion of Ordinary Shares of £1 each into Deferred Shares of £1 each	(217,800)	217,800		
Capitalisation of profits by the issue of 750,000 Ordinary Shares of £1 each	750,000			
Issue of 'A' and 'B' 11% Convertible Cumulative Redeemable Participating Preference Shares of £1 each			400,000	400,000
At 31 December 1977	<u>750,000</u>	<u>217,800</u>	<u>400,000</u>	<u>400,000</u>

- (i) The authorised share capital of the company was increased on 30 September 1977 from £500,000 to £1,767,800.

JOHN MORRELL & COMPANY LIMITED

NOTES TO THE ACCOUNTS FOR THE FIFTY-TWO
WEEKS ENDED 31 DECEMBER 1977 (CONTINUED)

- 7 (ii) 125,000 each of the 'A' and of the 'B' Convertible Cumulative Redeemable Participating Preference Shares of £1 each are designated 'A' and 'B' Option Shares respectively. The holders of these option shares are entitled at any time to convert the whole or a part of such shares on payment of the sum of 50 pence in respect of each Option Share converted into such number of 'A' Ordinary Shares of £1 each in the capital of the company as shall (if all the said 250,000 Option Shares are converted) represent 25% not only in nominal value but also in terms of voting rights attaching thereto of the issued ordinary share capital of the company as increased by the exercise of such right or (if only part of the option shares are converted) as shall represent such lower percentage pro rata.

- (iii) The holders of preference shares shall have the right during the period of two months after the receipt by such holders of the audited accounts of the company for each of the financial years ending or current at 31 December 1985 to 1989 to require the company to redeem up to 80,000 'A' and 80,000 'B' preference shares at par.

In the event that in any given year the holders of the preference shares do not exercise those rights then the company shall have the right within the time prescribed to redeem 55,000 'A' Preference Shares and 55,000 'B' Preference Shares but not including the Option Shares and the company may at any time after it has discharged in full its indebtedness to the 'A' and 'B' Preference Shareholders offer to redeem the whole or a proportion of the preference shares at par.

With effect from two months after the receipt by the holders of the Preference Shares of the audited accounts of the company for the financial year ended on or current at 31 December 1990, the company shall have the right to redeem in any period of 12 months thereafter up to 25,000 'A' and 25,000 'B' Preference Shares (but not including any 'A' or 'B' Option Shares unless and until all other 'A' and 'B' Preference Shares have been redeemed).

- (iv) The 'A' and 'B' Preference shares carry rights to participate in 8% of adjusted profits of the company as defined in the Articles of Association in excess of £600,000 in any financial year.

JOHN MORRELL & COMPANY LIMITED

NOTES TO THE ACCOUNTS FOR THE FIFTY-TWO
WEEKS ENDED 31 DECEMBER 1977 (CONTINUED)

8 LOAN CAPITAL

	<u>1977</u>	<u>1976</u>
Industrial and Commercial Finance Corporation Limited	350,000	-
Midland Industrial Investment Limited	350,000	-
	<u>£700,000</u>	<u>£ -</u>

Each of the loans is repayable by five annual instalments, four annual instalments of £75,000, the first due on 31 December 1981 and a final instalment of £50,000 on 31 December 1985.

Interest at 15.5% per annum is payable quarterly on the reducing balance.

The loans are secured by a fixed charge on freehold and leasehold land and buildings and a floating charge on all the assets of the company and collateral debentures giving a fixed charge on all the freehold and leased premises of the company and its subsidiaries and a floating charge on all the assets of these companies subject to a deed of priorities between the group's bankers and loan capital holders.

9 FIXED ASSETS - CONSOLIDATED BALANCE SHEET

	<u>Freehold property</u>	<u>Short leasehold property</u>	<u>Machinery vehicles and fixtures</u>	<u>Work in progress</u>	<u>Total</u>
Cost at 1 January 1977	216,261	23,874	961,765	40,660	1,242,560
Additions	-	1,167	55,782	51,849	108,798
Transfer from work in progress	27,336	-	48,518	(75,854)	-
Disposals	-	-	(71,485)	-	(71,485)
Cost at 31 December 1977	<u>243,597</u>	<u>25,041</u>	<u>994,580</u>	<u>16,655</u>	<u>1,279,873</u>
Depreciation at 1 January 1977	82,619	14,402	559,757	-	656,778
Reclassification	71	-	(71)	-	-
Charged for period	7,052	3,845	111,041	-	121,938
Disposals	-	-	(47,230)	-	(47,230)
Depreciation at 31 December 1977	<u>89,742</u>	<u>18,247</u>	<u>623,497</u>	<u>-</u>	<u>731,486</u>
Net book amount at 31 December 1977	<u>£153,855</u>	<u>6,794</u>	<u>371,083</u>	<u>16,655</u>	<u>548,387</u>
Net book amount at 1 January 1977	<u>£ 133,642</u>	<u>9,472</u>	<u>402,008</u>	<u>40,660</u>	<u>585,782</u>

JOHN MORRELL & COMPANY LIMITED

NOTES TO THE ACCOUNTS FOR THE FIFTY-TWO
WEEKS ENDED 31 DECEMBER 1977 (CONTINUED)

10 FIXED ASSETS - COMPANY BALANCE SHEET

	<u>Freehold property</u>	<u>Short leasehold property</u>	<u>Machinery vehicles and fixtures</u>	<u>Work in progress</u>	<u>Total</u>
Cost at 1 January 1977	110,157	12,178	818,085	38,180	978,600
Additions	-	-	55,782	26,651	82,433
Inter-company transfers	-	-	-	5,349	5,349
Transfers from work in progress	5,321	-	48,518	(53,839)	-
Disposals	-	-	(71,485)	-	(71,485)
Cost at 31 December 1977	115,478	12,178	850,900	16,341	994,897
Depreciation at 1 January 1977	64,344	8,521	479,844	-	552,709
Charged for period	2,421	2,582	94,744	-	99,747
Disposals	-	-	(47,230)	-	(47,230)
Depreciation at 31 December 1977	66,765	11,103	527,358	-	605,226
Net book amount at 31 December 1977	£48,713	1,075	323,542	16,341	389,671
Net book amount at 1 January 1977	£45,813	3,657	338,241	38,180	425,891

11 CAPITAL COMMITMENTS

Contracts placed by the company for capital expenditure at the balance sheet date amounted to £32,545 (1976 - £9,461) and by the group £34,439 (1976 - £22,433). There was no capital expenditure authorised by the board (1976 - Nil) for which contracts had not been placed.

12 UNQUOTED TRADE INVESTMENTS

	<u>Group</u>	<u>Company</u>
Directors' valuation		
31 December 1977	£207	£207
1 January 1977	£207	£207

JOHN MORRELL & COMPANY LIMITED

NOTES TO THE ACCOUNTS FOR THE FIFTY-TWO
WEEKS ENDED 31 DECEMBER 1977 (CONTINUED)

13 STOCK

The main categories comprise:

	<u>Group</u>		<u>Company</u>	
	<u>1977</u>	<u>1976</u>	<u>1977</u>	<u>1976</u>
Raw materials including packing materials	875,264	1,063,878	796,071	966,793
Work in progress	44,861	155,166	23,206	94,809
Finished goods	3,504,018	2,602,656	3,211,934	2,312,755
	<u>£4,424,143</u>	<u>3,821,700</u>	<u>4,031,211</u>	<u>3,374,357</u>

14 BANK OVERDRAFTS AND LOANS

Bank overdrafts and loans are secured by a fixed charge on the group's freehold and leasehold properties, a first fixed charge on investment in subsidiary companies and a floating charge on all other assets subject to a deed of priorities between the group's bankers and loan capital holders. Cross guarantees have been given between the company, its ultimate holding company and subsidiary companies.

15 CONTINGENT LIABILITIES

There is a contingent liability in a subsidiary company of approximately £168,000 (1976 - £128,000) in respect of taxation losses for which relief has been taken in these accounts. During the current year the Inland Revenue have disputed the availability of the losses (amounting to £368,000) taken over from Spring & Company Limited in December 1972 because they consider that there has been a major change in the trade. The directors of the subsidiary are contesting the Inland Revenue's claim.

16 SUBSIDIARY COMPANIES

The company's wholly owned subsidiaries are The Victoria Cold Storage Company Limited and Spring Food Products Limited, both of which are incorporated in England.

17 ULTIMATE HOLDING COMPANY

The company's ultimate holding company is AC Morrell Limited which is incorporated in England.

JOHN MORRELL & COMPANY LIMITED

CURRENT COST STATEMENT
FOR THE FIFTY-TWO WEEKS ENDED
31 DECEMBER 1977

SALES		£15,149,517
PROFIT BEFORE TAXATION AND INTEREST AS IN HISTORICAL COST ACCOUNTS		795,945
Less: Adjustments		
Depreciation (Note 1)	125,437	
Cost of Sales (Note 2)	<u>417,935</u>	
OPERATING PROFIT		<u>543,372</u>
Interest payable		252,573
Gearing adjustment (Note 3)		<u>355,100</u>
ADJUSTED PROFIT FOR THE PERIOD BEFORE TAXATION AND EXTRAORDINARY ITEM		(102,527)
TAXATION		<u>338,249</u>
ADJUSTED PROFIT BEFORE EXTRAORDINARY ITEM		235,722
EXTRAORDINARY ITEM		<u>184,933</u>
ADJUSTED LOSS FOR THE PERIOD		50,789
DIVIDENDS		<u>73,626</u>
ADJUSTED ADVERSE BALANCE		(22,837)
		<u>26,000</u>
		<u>£(48,837)</u>

Notes

- 1 The additional depreciation charge based on the estimated current cost of fixed assets has been calculated by analysing the historical cost gross and net book amounts and current year depreciation charge by reference to the year of purchase of each asset except for freehold land and buildings which have been valued by the directors based on earlier professional valuations. These amounts have been revised in accordance with the appropriate Central Statistical Office price index number for current cost accounting.
- 2 The additional current cost of sales was computed using the averaging method, revising the historical cost of opening and closing stock to the average current cost for the year by use of the appropriate Central Statistical Office food price indices.
- 3 This adjustment reflects the extent to which the depreciation and cost of sales adjustments need not be provided from current revenues but are financed by net monetary liabilities.