Marshall Food Group Limited

Directors' report and consolidated financial statements

30 September 1998
Registered number SCO34389

Directors' report and consolidated financial statements

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 1998.

Principal activities

The principal activities of the group continue to be the production of chicken and the manufacture of convenience foods.

On 10 September 1998 the group was acquired by Grampian Country Food Group Limited.

Business review

The group's operating loss of £13,559,000 was sustained against a background of a difficult and increasingly competitive UK chicken market. Despite this level of trading performance the group was able to contain the increase in total borrowing to slightly in excess of £3,000,000 by tight debtor and stock management and the realisation of surplus assets.

Since the acquisition by Grampian the directors have pursued their strategy combining strategic investment in the assets of the business, including its employees, and implementing a clear set of objectives to capitalise on consumer demand for more convenient food products and to reap benefits from agricultural and process efficiencies. Despite the UK chicken market becoming more demanding in the last nine months, due in part to adverse exchange rate movements allowing attractively priced imports to increase, the business has achieved significant month by month improvement in performance. At the date of signing these accounts a vastly different trading performance is being recorded and operating at a break-even level is now in sight. The original goals set for the business in September 1998 are being achieved on timetable.

The group has been supported by the ultimate holding company subscribing for an additional £13,000,000 of preference shares since the balance sheet date, a sum sufficient to fund all post balance sheet losses and return the company to a positive shareholders funds position.

Much remains to be done to generate acceptable profitability and there will inevitably be difficult times ahead, however the directors remain confident that the foundations now laid will allow the business to develop successfully in the future.

Dividends and transfer to reserves

The consolidated profit and loss account on page 6 shows a loss after taxation for the financial year for the group of £17,495,000 *(1997: £11,210,000)*. The directors do not recommend the payment of a dividend.

Post balance sheet events

After the balance sheet date, the ultimate parent company, Grampian Country Food Group Limited, introduced preferred redeemable share capital of £13,000,000 into Marshall Food Group Limited. After the balance sheet date the bank loans and overdrafts were merged into the Grampian Country Food Group banking facilities with The Bank of Scotland. In accordance with Grampian Country Food Group financing structure, all bank borrowings in subsidiaries are held as overdrafts.

Directors' report *(continued)*

Auditors

During the year Arthur Andersen resigned as the company's auditors, and KPMG were appointed in their place.

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

Iain Smith & Co.

Iain Smith & Co
Secretaries

20 Queen's Road
Aberdeen
AB15 4ZT

30 July 1999

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group 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 group and to prevent and detect fraud and other irregularities.

KPMG

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 6 to 23.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

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 group'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 and the group as at 30 September 1998 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

30 July 1999

Consolidated profit and loss account

for the year ended 30 September 1998

	Note	1998 £000	1998 £000	1997 £000	1997 £000
Turnover	2		**201,807**		232,818
Change in stocks of finished goods and goods for resale		**(1,219)**		46	
Raw materials and consumables		**(92,071)**		(110,267)	
Staff costs	7	**(57,306)**		(60,717)	
Depreciation and other amounts written off tangible fixed assets		**(6,728)**		(10,304)	
Other operating charges		**(58,042)**		(55,441)	
Factory closure costs	*3*	**-**		(7,436)	
			(215,366)		(244,119)
Operating loss			**(13,559)**		(11,301)
Interest payable and similar charges	*4*		**(4,061)**		(2,614)
Loss on ordinary activities before taxation	*5*		**(17,620)**		(13,915)
Taxation on loss on ordinary activities	*8*		**125**		2,705
Loss on ordinary activities after taxation for the year	*9 & 18*		**(17,495)**		(11,210)
Retained profit brought forward			**6,130**		17,340
(Accumulated loss) retained profit carried forward			**(11,365)**		6,130

A statement of movements on reserves is given in note 18

The reported profit has been calculated under the historical cost convention.

The group has no recognised gains or losses other than the result for the financial year.

Consolidated balance sheet
at 30 September 1998

	Note	1998		1997	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	*10*		40,393		47,946
Current assets					
Stocks	*12*	10,663		14,293	
Debtors	*13*	12,595		17,227	
Cash at bank and in hand		324		457	
		23,582		31,977	
Creditors: amounts falling due within one year	*14*	(58,417)		(64,466)	
Net current liabilities			(34,835)		(32,489)
Total assets less current liabilities			5,558		15,457
Creditors: amounts falling due after more than one year	*15*		(11,918)		(4,322)
Provisions for liabilities and charges	*16*		-		-
Net (liabilities) assets			(6,360)		11,135
Capital and reserves					
Called up share capital	*17*		5,005		5,005
Profit and loss account	*18*		(11,365)		6,130
Equity Shareholders' funds (deficit)	*19*		(6,360)		11,135

After the balance sheet date, the ultimate parent company has introduced further share capital of £13,000,000 into Marshall Food Group Limited. Those transactions are explained in more detail at note 27.

These financial statements were approved by the board of directors on 30 July 1999 and were signed on its behalf by:

AJ Duncan
Director

Company balance sheet
at 30 September 1998

	Note	1998		1997	
		£000	**£000**	£000	£000
Fixed assets					
Tangible assets	*10*		**40,392**		47,944
Investments in group undertakings	*11*		**45**		96
			40,437		48,040
Current assets					
Stocks	*12*	**10,663**		14,293	
Debtors	*13*	**12,597**		17,364	
Cash at bank and in hand		**15**		194	
		23,275		31,851	
Creditors: amounts falling due within one year	*14*	**(58,405)**		(64,726)	
Net current liabilities			**(35,130)**		(32,875)
Total assets less current liabilities			**5,307**		15,165
Creditors: amounts falling due after more than one year	*15*		**(11,918)**		(4,322)
Provisions for liabilities and charges	*16*		**-**		-
Net (liabilities) assets			**(6,611)**		10,843
Capital and reserves					
Called up share capital	*17*		**5,005**		5,005
Profit and loss account	*18*		**(11,616)**		5,838
Equity Shareholders' funds (deficit)	*19*		**(6,611)**		10,843

After the balance sheet date, the ultimate parent company has introduced further share capital of £13,000,000 into Marshall Food Group Limited. Those transactions are explained in more detail at note 27.

These financial statements were approved by the board of directors on 30 July 1999 and were signed on its behalf by:

AJ Duncan
Director

Consolidated cash flow statement
for the year ended 30 September 1998

	Note	1998		1997	
		£000	**£000**	£000	£000
Net cash inflow from operating activities	22		73		7,961
Returns on investments and servicing of finance					
Interest paid		(3,661)		(2,005)	
Interest element of finance lease rental payments		(643)		(338)	
Net cash outflow for returns on investments and servicing of finance			(4,304)		(2,343)
Taxation					
UK corporation tax recovered		14		-	
Tax recovered			14		-
Capital expenditure					
Purchase of tangible fixed assets		(3,479)		(7,003)	
Sale of tangible fixed assets	3	3,772		504	
Grants received during year		752		-	
Net cash inflow (outflow) for capital expenditure			1,045		(6,499)
Acquisitions and disposals					
Sale of associated undertaking	11	-		475	
Net cash inflow for acquisitions and disposals			-		475
Net cash outflow before financing			(3,172)		(406)
Financing					
Loans repaid		-		(4,125)	
Capital element of finance lease and hire purchase rental payments		(1,077)		(1,635)	
Net cash outflow from financing			(1,077)		(5,760)
Decrease in cash	24		(4,249)		(6,166)

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 group's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost convention modified for the revaluation of certain fixed assets.

The financial statements have been prepared on a going concern basis because of undertakings given by the parent undertaking which give the directors the necessary assurance to allow them to continue the group's operations.

Consolidation

The consolidated financial statements incorporate the financial statements of the company and all its subsidiary undertakings. These financial statements are made up to 30 September in each year. The consolidated profit and loss account and consolidated cash flow statement include the results and cash flows of all companies from the effective date of acquisition.

Consolidated goodwill, which represents the excess of the investment in subsidiary undertakings over the fair value of their net assets at the date of acquisition, is written off in the year of acquisition. Any excess of the fair value of the net assets acquired over the cost of the investment is credited direct to reserves.

In accordance with s230 of the Companies Act 1985, a separate profit and loss account of Marshall Food Group Limited is not presented as the results of the company are disclosed in the notes to the financial statements.

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 result 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.

Advance corporation tax recoverable by deduction from future corporation tax is carried forward against deferred taxation or as taxation recoverable within debtors as appropriate.

2 Turnover

Turnover represents the invoiced amount of goods sold and services provided stated net of value added tax. The turnover and profit 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 Factory closure costs

During 1997 the group ceased production at its Coatbridge factory. The Coatbridge site and some surplus farm assets were sold during the year for which proceeds were received before the year end.

4 Interest payable and similar charges

	1998	1997
	£000	£000
On bank loans and overdrafts	**3,290**	2,227
On finance leases and hire purchase contracts	**643**	338
On all other loans	**128**	49
	4,061	2,614

Notes *(continued)*

5 Loss on ordinary activities before taxation

	1998	1997
	£000	£000
Loss on ordinary activities before taxation is stated after charging:		
Depreciation *(1997: including provision of £4,576,000 relating to Coatbridge factory)*	**6,206**	10,363
Rentals payable under operating leases:		
Plant and machinery	**1,559**	1,677
Auditors' remuneration:		
Group - Audit (of which £33,500 charged in the company)	**35**	75
Other services	**6**	48
Loss on sale of fixed assets	**522**	-
after crediting		
Grants released to profit and loss account	**438**	1,096
Gain on sale of fixed assets	**-**	59
Gain on disposal of associated undertakings	**-**	93

6 Remuneration of directors

The aggregate emoluments, excluding pension contributions, were:

	1998	1997
	£000	£000
Directors' emoluments	**324**	350
Compensation for loss of office	**65**	-
Amounts payable to third parties in respect of directors' services	**30**	20

The emoluments of the highest paid director were £160,000 *(1997: £162,000)* with a further £30,000 being paid in cash and £320,000 paid into the pension scheme as compensation for loss of office. The accrued pension entitlement under the defined benefit pension scheme of the highest paid director at 30 September 1998 was £80,320 *(1997: £65,478)* and the accrued lump sum entitlement was nil *(1997: nil)*.

Retirement benefits are accruing to none (*1997: four*) of the other directors under defined benefit schemes operated by the group.
No remuneration was paid to the directors appointed on or subsequent to 10 September 1998.

Notes *(continued)*

7 Staff numbers and costs

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

	Number of employees	
	1998	1997
Management, administration, sales and distribution	**352**	418
Production	**3,457**	3,896
	3,809	4,314

The aggregate payroll costs of these persons were as follows:

	1998	1997
	£000	£000
Wages and salaries	**51,663**	55,275
Social security costs	**3,819**	4,474
Pension costs (note 26)	**1,824**	968
	57,306	60,717

8 Taxation

	1998	1997
	£000	£000
Taxation based on the result for the year:		
Corporation tax at 31% *(1997: 33%)*	**-**	(2,730)
Group relief	**(125)**	-
Current year	**(125)**	(2,730)
Prior year tax adjustments	**-**	25
	(125)	(2,705)

Notes *(continued)*

9 Loss on ordinary activities after taxation

The loss dealt with in the accounts of the parent company was £17,454,000 (*1997: loss £10,345,000*).

10 Tangible fixed assets

Group	Freehold land and buildings £000	Plant and machinery £000	Fixtures and fittings £000	Total £000
Cost				
At beginning of year	38,948	78,330	3,284	120,562
Additions	1,352	1,582	13	2,947
Disposals (note 3)	(6,769)	(9,276)	(131)	(16,176)
Reclassifications and write offs	(1,608)	(13,848)	(1,710)	(17,166)
At end of year	31,923	56,788	1,456	90,167
Depreciation				
At beginning of year	14,522	55,809	2,285	72,616
Charge for year	843	5,197	166	6,206
Disposals	(3,649)	(8,795)	(125)	(12,569)
Reclassifications and write offs	302	(15,576)	(1,205)	(16,479)
At end of year	12,018	36,635	1,121	49,774
Net book value				
At 30 September 1998	**19,905**	**20,153**	**335**	**40,393**
At 30 September 1997	24,426	22,521	999	47,946

The net book value of fixed assets of £40,393,000 *(1997: £47,946,000)* includes £2,819,000 *(1997: £4,101,000)* in respect of assets held under finance leases and similar hire purchase agreements. A depreciation charge of £1,182,000 *(1997: £1,429,000)* has been made against these assets in the year.

Included in freehold land and buildings is £1,684,000 *(1997: £1,562,000)* of land which is not depreciated.

Notes *(continued)*

10 Tangible fixed assets *(continued)*

Company	**Freehold land and buildings £000**	**Plant and machinery £000**	**Fixtures and fittings £000**	**Total £000**
Cost				
At beginning of year	38,948	78,323	3,278	120,549
Additions	1,352	1,582	13	2,947
Disposals (note 3)	(6,769)	(9,276)	(130)	(16,175)
Reclassifications and write offs	(1,608)	(13,848)	(1,710)	(17,166)
At end of year	31,923	56,781	1,451	90,155
Depreciation				
At beginning of year	14,522	55,803	2,280	72,605
Charge for year	843	5,197	166	6,206
Disposals (note 3)	(3,649)	(8,795)	(125)	(12,569)
Reclassifications and write offs	302	(15,576)	(1,205)	(16,479)
At end of year	12,018	36,629	1,116	49,763
Net book value				
At 30 September 1998	**19,905**	**20,152**	**335**	**40,392**
At 30 September 1997	24,426	22,520	998	47,944

The net book value of fixed assets of £40,392,000 *(1997: £47,944,000)* includes £2,819,000 *(1997: £4,101,000)* in respect of assets held under finance leases and similar hire purchase agreements. A depreciation charge of £1,182,000 *(1997: £1,429,000)* has been made against these assets in the year.

Included in freehold land and buildings is £1,684,000 *(1997: £1,562,000)* of land which is not depreciated.

11 Fixed asset investments

Company	**Shares in group undertakings £000**
Cost	
At beginning and end of year	96
Provision	
Impairment losses in year and at end of year	51
Net book value	
At 30 September 1998	**45**
At 30 September 1997	96

Notes *(continued)*

11 Fixed asset investments *(continued)*

The principal companies in which the company's interest at the year end is more than 10% are as follows:

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

Investment in associated undertaking

	Group		Company	
	1998	1997	**1998**	
	£000	£000	**£000**	£000
Cost, beginning and end of year	-	44	-	44
Share of post-acquisition retained earnings at beginning of year	-	409	-	-
Share of profit for year	-	22	-	-
Disposal	-	(475)	-	(44)
Net book value, end of year	-	-	-	-

12 Stocks

	Group		Company	
	1998	1997	**1998**	1997
	£000	£000	**£000**	£000
Raw materials and consumables	**9,025**	11,432	**9,025**	11,432
Work in progress	-	4	-	4
Finished goods and goods for resale	**1,638**	2,857	**1,638**	2,857
	10,663	14,293	**10,663**	14,293

Notes *(continued)*

13 Debtors

	Group		Company	
	1998	1997	**1998**	1997
	£000	£000	**£000**	£000
Trade debtors	**10,665**	11,285	**10,647**	11,259
Amounts owed by subsidiary undertakings	**-**	-	**20**	170
Amounts owed by group undertakings	**51**	-	**51**	-
Other debtors	**965**	1,353	**965**	1,353
Prepayments and accrued income	**785**	4,589	**785**	4,582
Corporation tax recoverable	**129**	-	**129**	-
	12,595	17,227	**12,597**	17,364

14 Creditors: amounts falling due within one year

	Group		Company	
	1998	1997	**1998**	1997
	£000	£000	**£000**	£000
Bank loans and overdrafts (note 15)	**27,428**	32,012	**27,428**	32,012
Obligations under finance leases and hire purchase contracts	**1,083**	1,281	**1,083**	1,281
Trade creditors	**14,432**	16,272	**14,431**	16,259
Amounts owed to subsidiary undertakings	**-**	-	**21**	275
Amounts owed to group undertakings	**2,077**	-	**2,077**	-
Corporation tax	**18**	-	**-**	-
Other tax and social security	**2,231**	2,727	**2,227**	2,727
Other creditors	**4,780**	1,682	**4,775**	1,677
Accruals and deferred income				
- government grants	**31**	116	**31**	116
- other	**6,337**	10,376	**6,332**	10,379
	58,417	64,466	**58,405**	64,726

Notes *(continued)*

15 Creditors: amounts falling due after more than one year

	Group		Company	
	1998	1997	**1998**	1997
	£000	£000	**£000**	£000
Obligations under finance leases and hire purchase contracts	**1,865**	2,332	**1,865**	2,332
Bank loans	**8,700**	-	**8,700**	-
Deferred government grants	**669**	1,022	**669**	1,022
Pension provision	**684**	968	**684**	968
	11,918	4,322	**11,918**	4,322

The bank overdraft and loans are secured by a bond and floating charge over all the assets of the group and by a standard security over certain of the group's properties. The bank also holds cross guarantees from the group companies together with a letter of offset. The interest on these loans is payable at various interest rates based on LIBOR.

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

	Group		Company	
	1998	1997	**1998**	1997
	£000	£000	**£000**	£000
Within one year	**1,083**	1,281	**1,083**	1,281
Between two and five years	**1,865**	2,184	**1,865**	2,184
After more than five years	**-**	148	**-**	148
	2,948	3,613	**2,948**	3,613

Notes *(continued)*

16 Provisions for liabilities and charges

	Deferred taxation £000
Group and company	
At beginning of year	-
Arising during the year	-
Movement in advance corporation tax	-
At end of year	-

17 Called up share capital

	1998 £000	1997 £000
Authorised		
Ordinary shares of £1 each	**3,813**	3,813
"A" Ordinary shares of £1 each	**2,187**	2,187
	6,000	6,000
Allotted, called up and fully paid		
Equity		
Ordinary shares of £1 each	**2,818**	2,818
"A" ordinary shares of £1 each	**2,187**	2,187
	5,005	5,005

18 Profit and loss account

Profit and loss account	Group £000	Company £000
At beginning of year	6,130	5,838
Loss for the financial year	(17,495)	(17,454)
At end of year	**(11,365)**	**(11,616)**

Notes *(continued)*

19 Reconciliation of movements in shareholders funds

	Group		Company	
	1998	1997	**1998**	1997
	£000	£000	**£000**	£000
Loss for the financial year being net reduction in shareholders' funds	**(17,495)**	(11,210)	**(17,454)**	(10,345)
At beginning of year	**11,135**	22,345	**10,843**	21,188
At end of year	**(6,360)**	11,135	**(6,611)**	10,843

20 Contingent liabilities

All companies within the group have issued unlimited guarantees and have secured, by a bond and floating charge on their own assets, the overdrafts and other financing provided to group companies by the Bank of Scotland.

21 Commitments

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

	1998	1997
Group and company	**£000**	£000
Contracted	-	1,335

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

	1998	1997
Group and company	**£000**	£000
Operating leases which expire:		
Within one year	**64**	94
In the second to fifth years	**191**	267
	255	361

Notes *(continued)*

22 Reconciliation of operating loss to net cash inflow from operating activities

	1998 £000	1997 £000
Operating loss	**(13,559)**	(11,301)
Depreciation charge	**6,206**	10,363
Loss (gain) on sale of assets	**522**	(59)
Grants released	**(438)**	(1,096)
Decrease in stocks	**3,630**	305
Decrease in debtors	**4,008**	5,284
(Decrease) increase in creditors	**(296)**	4,487
Share of profit of associated undertakings	**-**	(22)
Net cash inflow from operating activities	**73**	7,961

23 Analysis of net debt

	At 30 September 1997 £000	Cash flow £000	Other non cash changes £000	At 30 September 1998 £000
Cash in hand and at bank	457	(133)	-	**324**
Bank overdrafts	(11,312)	(4,116)	(12,000)	**(27,428)**
	(10,855)	(4,249)	(12,000)	**(27,104)**
Bank debt due after one year	-	-	(8,700)	**(8,700)**
Bank debt due within one year	(20,700)	-	20,700	**-**
Hire purchase and finance leasing liabilities	(3,613)	1,077	(412)	**(2,948)**
	(24,313)	1,077	11,588	**(11,648)**
Total	**(35,168)**	**(3,172)**	**(412)**	**(38,752)**

The non cash changes relate to restructuring of bank facilities during the year.

Notes *(continued)*

24 Reconciliation of net cash flow to movement in debt

	1998 **£000**	1997 £000
Decrease in cash in period	**(4,249)**	(6,166)
Cash inflow from increase in debt and lease financing	**1,077**	5,760
Change in debt resulting from cash flows	**(3,172)**	(406)
New finance leases and similar hire purchase contracts	**(412)**	(687)
Movement in debt in year	**(3,584)**	(1,093)
Net debt at beginning of year	**(35,168)**	(34,075)
Net debt at end of year	**(38,752)**	(35,168)

25 Related party transactions

During the year, the company rented a farm property from Mr WM Marshall, a director of the company at an annual rental of £50,000 *(1997: £55,000)* the transaction being at arms length.

During the year, Mr Marshall purchased land, buildings and eight vehicles from the company for a total consideration of £168,000, being the market value of the assets.

26 Pension costs

The pension cost charge for the year was £1,824,000 *(1997: £968,000)*, made up of a regular cost of £1,922,000 *(1997: £1,398,000)* less variation from regular cost of £98,000 *(1997: £430,000)*. Variation from regular cost represents the amortisation of the additional actuarial surplus identified in the most recent actuarial valuation.

A provision of £684,000 *(1997: £968,000)* is included in creditors due after more than one year, 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.

Notes *(continued)*

27 Post balance sheet events

After the balance sheet date, the ultimate parent company, Grampian Country Food Group Limited, introduced preferred redeemable shares of £13,000,000 to Marshall Food Group Limited.

After the balance sheet date the bank loans and overdrafts were merged into the Grampian Country Food Group banking facilities with the Bank of Scotland. In accordance with Grampian Country Food Group financing structure, all bank borrowings in subsidiaries are held as overdrafts.

Since the acquisition by Grampian the directors have pursued their strategy combining strategic investment in the assets of the business, including its employees, and implementing a clear set of objectives to capitalise on consumer demand for more convenient food products and to reap benefits from agricultural and process efficiencies. Despite the UK chicken market becoming more demanding in the last nine months, due in part to adverse exchange rate movements allowing attractively priced imports to increase, the business has achieved significant month by month improvement in performance. At the date of signing these accounts a vastly different trading performance is being recorded and operating at a break-even level is now in sight. The original goals set for the business in September 1998 are being achieved on timetable.

Much remains to be done to generate acceptable profitability and there will inevitably be difficult times ahead, however the directors remain confident that the foundations now laid will allow the business to develop successfully in the future.

28 Ultimate parent undertaking

The company is a subsidiary undertaking of Grampian Country Food Group Limited which is registered in Scotland. These company's results have not been consolidated by Grampian Country Food Group as at 30 September 1998 as the year end (at that time) was not co terminous.