

Marshall Food Group Limited
and subsidiaries

Accounts 30 September 1997
together with directors' and auditors' reports

Registered number: SCO34389



Directors and advisors

Directors

W M Marshall (Chairman)
K M M Marshall
T J Ridyard
J F Pollard
R G T Stenhouse

Secretary

N T Stewart

Auditors

Arthur Andersen
18 Charlotte Square
Edinburgh

Bankers

Bank of Scotland
38 St Andrew Square
Edinburgh

Solicitors

Dickson Minto WS
11 Walker Street
Edinburgh

Registered office

Newbridge
Midlothian
EH28 8SW

Chairman's statement

For the year ended 30 September 1997

I herewith present the Accounts for the year ended 30 September 1997 showing a turnover of £232.8 million (1996 - £236.7 million) and a loss before tax of £13.915 million (1996 - £0.944 million loss).

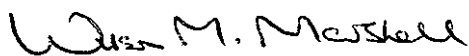
Severe disruption and operating difficulties within the Group following the closure of our Coatbridge factory contributed to the poor performance for the year. In addition, specific closure costs of the Coatbridge factory amounting to £7.436 million are included in these Accounts.

The Board recommends that no dividend be paid for the year (1996 - nil).

The strength of sterling and an oversupplied UK market has resulted in difficult trading conditions. The Group continues to reduce its costs and refocus its business and to this end a product rationalisation programme has been implemented.

The Bank of Scotland has been extremely supportive and we look forward to their continuing support as we restructure the Group and dispose of surplus properties.

Finally I would like to thank my colleagues throughout the company for their tremendous support and commitment.



W M Marshall
Chairman

28 July 1998

Directors' report

For the year ended 30 September 1997

The directors present their annual report on the affairs of the group, together with the accounts and auditors' report, for the year ended 30 September 1997.

Principal activities and business review

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

The results for the year are set out in detail on page 7. The loss on ordinary activities before taxation was £13,915,000 (1996 - £944,000).

Results and dividends

Group results are as follows:

	£'000
Group retained profit at 1 October 1996	17,340
Group loss for the financial year	(11,210)
Group retained profit at 30 September 1997	<u>6,130</u>

The directors do not recommend the payment of a dividend (1996 - £nil).

Directors and their interests

The directors who served during the year and their beneficial interests (including the interests of their families) in the shares of the company at year end are as follows:

Director	1997		1996	
	Ordinary Shares £'000	'A' Ordinary Shares £'000	Ordinary Shares £'000	'A' Ordinary Shares £'000
W M Marshall	2,087	565	2,111	723
K M M Marshall	172	188	148	31
R J Preston (resigned 19 March 1997)	-	-	-	-
T J Ridyard (appointed 14 March 1997)	-	-	-	-
J D Lamont (appointed 14 March 1997, resigned 27 November 1997)	-	-	-	-
J F Pollard (appointed 14 March 1997)	-	-	-	-
R G T Stenhouse (appointed 14 March 1997)	-	-	-	-

Directors' report (continued)

Fixed assets

Information relating to changes in tangible fixed assets is given in note 8 to the accounts.

On 27 October 1995 Bidwells, Chartered Surveyors, reported on the results of a full valuation of the agricultural land and buildings owned by the group. In the opinion of the directors the value, on an existing use basis, of these assets exceeds book value by approximately £15,000,000.

The group's liability to taxation if land and buildings were sold at these values would approximate £700,000.

Charitable and political contributions

The group made a number of charitable donations totalling £19,814 (1996 - £14,619). No political contributions were made during the year (1996 - £nil).

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee consultation

The group places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the group. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Directors' responsibilities

Company law requires directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and group and of the group's profit or loss for that period. In preparing those accounts, 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 accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

Directors' report (continued)

Directors' responsibilities (continued)

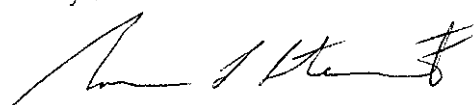
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The directors will place a resolution before the Annual General Meeting to reappoint Arthur Andersen as auditors for the ensuing year.

By order of the Board

Newbridge
Midlothian
EH28 8SW



N T Stewart
Secretary

28 July 1998

Auditors' report

Edinburgh

To the Shareholders of Marshall Food Group Limited:

We have audited the accounts on pages 7 to 29 which have been prepared under the historical cost convention and the accounting policies set out on pages 10 to 12.

Respective responsibilities of directors and auditors

As described on pages 4 and 5, the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the company and of the group, 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 accounts 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 accounts.

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 23 to the accounts concerning the uncertainty as to the continuation and renewal of the group's banking facilities. In view of the significance of this uncertainty we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group at 30 September 1997 and of the group's loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen.

Arthur Andersen

Chartered Accountants and Registered Auditors

18 Charlotte Square
Edinburgh EH2 4DF

28 July 1998

Consolidated profit and loss account

For the year ended 30 September 1997

	Notes	1997 £'000	1996 £'000
Turnover	2	232,818	236,654
Cost of sales		(220,074)	(218,327)
Gross profit		12,744	18,327
Other operating expenses (net)	3	(16,668)	(16,624)
Factory closure costs	3	(7,436)	-
Operating (loss) profit		(11,360)	1,703
Profit on the disposal of tangible fixed assets		59	98
(Loss) profit on ordinary activities before interest		(11,301)	1,801
Interest payable and similar charges	4	(2,614)	(2,745)
Loss on ordinary activities before taxation	5	(13,915)	(944)
Tax on loss on ordinary activities	7	2,705	82
Retained loss for the year		(11,210)	(862)
Retained profit, beginning of year		17,340	18,202
Retained profit, end of year		6,130	17,340

A statement of movements on reserves is given in note 16.

The current year results have been derived in all material respects from continuing operations.

The group has no recognised gains or losses in either year other than the loss for each year.

Historical cost loss on ordinary activities before taxation equates to the reported loss on ordinary activities before taxation.

The accompanying notes are an integral part of this consolidated profit and loss account.

Balance sheets

30 September 1997

	Notes	Group		Company	
		1997 £'000	1996 £'000	1997 £'000	1996 £'000
Fixed assets					
Tangible assets	8	47,946	50,913	47,944	50,328
Investments	9	-	453	96	140
		<u>47,946</u>	<u>51,366</u>	<u>48,040</u>	<u>50,468</u>
Current assets					
Stocks	10	14,293	14,598	14,293	14,444
Debtors - due within one year	11	17,227	21,440	17,364	21,585
Debtors - due after more than one year	11	-	319	-	307
Cash at bank and in hand		457	257	194	13
		<u>31,977</u>	<u>36,614</u>	<u>31,851</u>	<u>36,349</u>
Creditors: Amounts falling due within one year	12	(64,466)	(42,552)	(64,726)	(42,551)
Net current liabilities		<u>(32,489)</u>	<u>(5,938)</u>	<u>(32,875)</u>	<u>(6,202)</u>
Total assets less current liabilities		<u>15,457</u>	<u>45,428</u>	<u>15,165</u>	<u>44,266</u>
Creditors: Amounts falling due after more than one year	13	(4,322)	(20,353)	(4,322)	(20,353)
Provisions for liabilities and charges	14	-	(2,730)	-	(2,725)
Net assets		<u>11,135</u>	<u>22,345</u>	<u>10,843</u>	<u>21,188</u>
Capital and reserves					
Called-up equity share capital	15	5,005	5,005	5,005	5,005
Profit and loss account	16	6,130	17,340	5,838	16,183
Equity shareholders' funds	17	<u>11,135</u>	<u>22,345</u>	<u>10,843</u>	<u>21,188</u>

Signed on behalf of the Board

W M Marshall

W M Marshall

Director

28 July 1998

The accompanying notes are an integral part of these balance sheets.

Consolidated cash flow statement

For the year ended 30 September 1997

	Notes	1997 £'000	1996 £'000
Net cash inflow from operating activities	18	7,961	7,910
Returns on investments and servicing of finance	19	(2,343)	(2,886)
Taxation	19	-	972
Capital expenditure and financial investment	19	(6,499)	(7,735)
Acquisitions and disposals	19	475	-
Cash outflow before financing		(406)	(1,739)
Financing	19	(5,760)	4,442
(Decrease) increase in cash in the year	20	(6,166)	2,703

The accompanying notes are an integral part of this consolidated cash flow statement.

Notes to accounts

30 September 1997

1 Accounting policies

A summary of the principal group accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

a) Basis of accounting

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

The accounts are prepared on a going concern basis, further details of which are contained in note 23.

b) Basis of consolidation

The group accounts consolidate the accounts of Marshall Food Group Limited and all its subsidiary undertakings made up to 30 September 1997. The financial years of all the company's subsidiary undertakings are coterminous with that of the company.

In the company's accounts, investments in subsidiary undertakings are stated at cost less amounts written off. Only dividends received and receivable are credited to the company's profit and loss account.

No profit and loss account is presented for Marshall Food Group Limited, as permitted by section 230 of the Companies Act 1985. The company's loss for the financial year, determined in accordance with the Act, was £10,345,000 (1996 - £935,000).

c) Tangible fixed assets

Tangible fixed assets are shown at original historical cost (as set out in note 8). Related government grants are reported as deferred income and amortised over the expected useful life of the asset concerned or over a period which the directors consider appropriate to match the related project costs. The balance of unused grants is disclosed as deferred income.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Freehold land and buildings	10 to 50 years
Plant and equipment	3 to 10 years
Fixtures and fittings	7 to 10 years

Notes to accounts (continued)

1 Accounting policies (continued)

d) Investments

Fixed asset investments are shown at cost less amounts written off. Provisions are made for permanent reductions in value. Income is included (together with the related tax charge) in the consolidated accounts in the year in which it is receivable.

e) Interests in associated undertakings

Associated undertakings are entities in which the company has a participating interest and over whose operating and financial policy it exercises a significant influence. They do not include subsidiary undertakings. Investments in associated undertakings are dealt with by the equity method of accounting, whereby the consolidated profit and loss account includes the appropriate share of these companies' profits less losses and the group's share of post-acquisition retained profits and reserves is added to the cost of investment in the consolidated balance sheet.

f) Stocks

Stocks are stated at the lower of cost and net realisable value.

Cost incurred in bringing each product to its present location and condition is based on:

Raw materials and consumables - purchase cost on a first-in, first-out basis, including transport.

Work-in-progress and finished goods - cost of direct materials and labour plus a reasonable proportion of production overheads based on normal levels of activity.

Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

g) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

The taxation liabilities of certain group companies may be reduced wholly or in part by the surrender of losses by fellow group companies. The tax benefits arising from group relief are recognised in the accounts of the surrendering companies.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax legislation) has been calculated on the liability method. Deferred tax is provided on timing differences which will probably reverse, at the rates of tax likely to be in force at the time of the reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

Notes to accounts (continued)

1 Accounting policies (continued)

h) Pension costs

The group provides pensions to its employees through a retirement benefits scheme.

The assets of the scheme are held independently of the group by trustees.

The scheme, which is contributory, provides for defined benefits.

The amount charged to the profit and loss account is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Variations from regular cost are charged or credited to the profit and loss account over the estimated average remaining working life of scheme members.

Any difference between amounts charged to the profit and loss account and amounts paid to the pension scheme is shown as a separately identified liability or asset in the balance sheet.

Further information on pension costs is provided in note 21.

i) Turnover

Group turnover comprises the invoiced value of sales (excluding VAT and similar taxes, trade discounts and intra-group transactions) of goods and services in the normal course of business.

j) Leases

The group enters into operating and finance leases.

Assets held under finance leases are initially reported at the fair value of the asset with an equivalent liability categorised as appropriate under creditors due within or after one year. The asset is depreciated over the shorter of the lease term and its useful economic life. Finance costs are allocated to accounting periods over the period of the lease to produce a constant rate of charge on the outstanding balance. Rentals are apportioned between finance costs and reduction of the liability, and allocated to cost of sales and other operating expenses as appropriate.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if payments are not made on such a basis. Further information on charges in the year and future commitments is given in note 21.

Notes to accounts (continued)

2 Segment information

Substantially all sales and losses are generated from the production and distribution of poultry and convenience foods in the UK.

3 Other operating expenses (net)

	1997 £'000	1996 £'000
Distribution costs	9,034	9,017
Selling and marketing costs	1,715	1,638
Administrative expenses	6,325	6,040
	<u>17,074</u>	<u>16,695</u>
Other operating income	(291)	(62)
Share of profit of associated undertaking	(22)	(9)
Gain on disposal of associated undertaking (note 9)	(93)	-
	<u>16,668</u>	<u>16,624</u>

During the year the company ceased production at its Coatbridge factory, incurring the following closure costs:

	£'000
Redundancy costs	2,080
Fixed asset provisions	4,576
Other closure costs	780
	<u>7,436</u>

4 Interest payable and similar charges

	1997 £'000	1996 £'000
Bank loans and overdrafts	2,227	2,295
Finance leases	338	373
On all other loans	49	77
	<u>2,614</u>	<u>2,745</u>

Notes to accounts (continued)

5 Loss on ordinary activities before taxation

1997	1996
£'000	£'000

Loss on ordinary activities before taxation is stated after crediting:

Amortisation of government grants

- Regional Selective Assistance grants

- Other government grants

956	651
140	172

And after charging:

Depreciation of tangible fixed assets

- owned

- held under finance leases

Hire of plant and machinery under operating leases

Auditors' remuneration

- audit fees

- other professional services

Staff costs (note 6)

8,934	5,459
1,429	1,468
1,677	1,727
75	68
48	16
59,285	59,731

Depreciation of owned tangible fixed assets shown above includes an amount of £4,576,000 (1996 - £nil) in respect of fixed asset provisions following the closure of the Coatbridge factory (note 3).

6 Staff costs

Particulars of employees (including executive directors) are shown below.

1997	1996
£'000	£'000

Employee costs during the year amounted to:

Wages and salaries

Social security costs

Other pension costs

53,843	54,502
4,474	4,500
968	729
59,285	59,731

Notes to accounts (continued)

6 Staff costs (continued)

The average monthly number of persons employed by the group during the year was as follows:

	1997 Number	1996 Number
Production	3,896	4,256
Distribution, sales and marketing	68	101
Research and development	14	14
Administration	336	320
	<u>4,314</u>	<u>4,691</u>

Directors' remuneration:

Remuneration:

The remuneration of the directors was as follows:

	1997 £'000	1996 £'000
Emoluments	350	275
Fees to third parties in respect of directors' services	20	25
	<u>370</u>	<u>300</u>

Pensions:

The number of directors who were members of the pension scheme was as follows:

	1997 Number	1996 Number
Defined benefit scheme	<u>4</u>	<u>3</u>

Notes to accounts (continued)

6 Staff costs (continued)

Highest paid director:

The above remuneration includes the following in respect of the highest paid director:

	1997 £'000	1996 £'000
Emoluments	<u>162</u>	<u>156</u>

The accrued pension entitlement under the company's defined benefit scheme of the highest paid director at 30 September 1997 was £65,478 (1996 - £60,927) and the accrued lump sum entitlement at 30 September 1997 was £nil (1996 - £nil).

7 Tax on loss on ordinary activities

The tax credit is based on the loss for the year and comprises:

	1997 £'000	1996 £'000
Corporation tax at 31% (1996-33%)	-	26
Deferred taxation arising from:		
- capital allowances	(2,511)	(5)
- other timing differences	(219)	(226)
Tax attributable to associated undertaking	<u>-</u>	<u>2</u>
	(2,730)	(203)
Adjustment of current taxation in respect of prior years	25	45
Adjustment of deferred taxation in respect of timing differences from prior years	<u>-</u>	<u>76</u>
	<u>(2,705)</u>	<u>(82)</u>

Had the group been providing the full amount of potential deferred taxation there would have been no significant change to the charge for the year or the prior year.

Notes to accounts (continued)

8 Tangible fixed assets

The movement in the year was as follows:

GROUP:

	Freehold land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Total £'000
Cost				
Beginning of year	37,428	73,086	3,168	113,682
Additions	1,246	6,477	118	7,841
Disposals	-	(1,166)	-	(1,166)
End of year	<u>38,674</u>	<u>78,397</u>	<u>3,286</u>	<u>120,357</u>
Depreciation				
Beginning of year	10,786	49,914	2,069	62,769
Charge	3,482	6,666	215	10,363
Disposals	-	(721)	-	(721)
End of year	<u>14,268</u>	<u>55,859</u>	<u>2,284</u>	<u>72,411</u>
Net book value				
Beginning of year	<u>26,642</u>	<u>23,172</u>	<u>1,099</u>	<u>50,913</u>
End of year	<u>24,406</u>	<u>22,538</u>	<u>1,002</u>	<u>47,946</u>

As further explained on page 4, in the opinion of the directors, the value of agricultural land and buildings on an open market existing use basis exceeds book value by approximately £15,000,000.

Included in plant and equipment above are the following amounts held under finance leases:

	1997 £'000	1996 £'000
Net book value	<u>4,101</u>	<u>4,869</u>

Freehold land amounting to £1,562,000 (1996 - £1,562,000) has not been depreciated.

Notes to accounts (continued)

8 Tangible fixed assets (continued)

The movement in the year was as follows:

COMPANY:

	Freehold land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Total £'000
Cost				
Beginning of year	37,050	72,656	3,134	112,840
Additions	1,246	6,477	118	7,841
Transferred from subsidiary undertaking	12	42	27	81
Disposals	-	(1,166)	-	(1,166)
End of year	<u>38,308</u>	<u>78,009</u>	<u>3,279</u>	<u>119,596</u>
Depreciation				
Beginning of year	10,958	49,509	2,045	62,512
Charge	2,919	6,666	215	9,800
Transferred from subsidiary undertaking	5	36	20	61
Disposals	-	(721)	-	(721)
End of year	<u>13,882</u>	<u>55,490</u>	<u>2,280</u>	<u>71,652</u>
Net book value				
Beginning of year	<u>26,092</u>	<u>23,147</u>	<u>1,089</u>	<u>50,328</u>
Net book value				
End of year	<u>24,426</u>	<u>22,519</u>	<u>999</u>	<u>47,944</u>

As further explained on page 4, in the opinion of the directors, the value of agricultural land and buildings on an open market existing use basis exceeds book value by approximately £15,000,000.

Included in plant and equipment above are the following amounts held under finance leases:

	1997 £'000	1996 £'000
Net book value	<u>4,101</u>	<u>4,869</u>

Freehold land amounting to £1,562,000 (1996 - £1,562,000) has not been depreciated.

Notes to accounts (continued)

9 Fixed asset investments

The following are included in the net book value of fixed asset investments:

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Subsidiary undertakings	-	-	96	96
Associated undertaking	-	453	-	44
	<u>-</u>	<u>453</u>	<u>96</u>	<u>140</u>

a) Principal group investments:

The parent company and the group have investments in the following subsidiary undertakings:

<u>Subsidiary undertakings:</u>	<u>Shareholding</u>	<u>Principal activity</u>	<u>Country of incorporation and trading</u>
Grain Brokers (Leith) Limited	100%	Grain broking	Scotland
Robert Miller (Denny) Limited	100%	Non-trading	Scotland
D B Marshall (Newbridge) Limited	100%	Non-trading	Scotland

During the year the parent company acquired the trade, assets and liabilities of Robert Miller (Denny) Limited. Accordingly, this subsidiary undertaking no longer trades.

b) Investment in subsidiary undertakings:

	Company	
	1997	1996
	£'000	£'000
Net book value, beginning and end of year	<u>96</u>	<u>96</u>

Notes to accounts (continued)

9 Fixed asset investments (continued)

c) Investment in associated undertaking:

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Cost, beginning and end of year	44	44	44	44
Share of post-acquisition retained earnings at beginning of year	409	402	-	-
Share of profit for year	22	7	-	-
Disposal	(475)	-	(44)	-
Net book value, end of year	-	453	-	44

During the year the trade, assets and liabilities of Douglas Millar (Transport) Limited were sold. The company was subsequently liquidated and the group's share of the gain arising of £93,000 is recognised in the consolidated profit and loss account.

10 Stocks

The following are included in the net book value of stocks:

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Raw materials and consumables	11,432	12,022	11,432	11,889
Work-in-progress	4	16	4	-
Finished goods	2,857	2,560	2,857	2,555
	14,293	14,598	14,293	14,444

The directors consider that there is no material difference between the balance sheet value and replacement cost of stocks.

Notes to accounts (continued)

11 Debtors

The following are included in the net book value of debtors:

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Trade debtors	11,285	16,173	11,259	16,135
Amounts owed by subsidiary undertakings	-	-	170	179
Amounts owed by associated undertaking	-	15	-	15
VAT	1,223	1,286	1,223	1,305
Other debtors	130	571	130	571
Prepayments and accrued income	4,589	3,395	4,582	3,380
	<u>17,227</u>	<u>21,440</u>	<u>17,364</u>	<u>21,585</u>
Amounts falling due after more than one year:				
Prepaid pension contributions	-	319	-	307
	<u>17,227</u>	<u>21,759</u>	<u>17,364</u>	<u>21,892</u>

Notes to accounts (continued)

12 Creditors: Amounts falling due within one year

The following amounts are included in creditors falling due within one year:

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Obligations under finance leases	1,281	1,548	1,281	1,548
Bank overdraft	11,312	4,946	11,312	4,946
Bank loans (secured)	20,700	8,625	20,700	8,625
Trade creditors	16,272	13,078	16,259	13,031
Amounts owed to subsidiary undertakings	-	-	275	25
Amounts owed to associated undertaking	-	279	-	279
Other creditors:				
- UK corporation tax payable	-	26	-	-
- Social Security and PAYE	2,727	2,928	2,727	2,919
- other	1,682	1,670	1,677	1,672
Accruals and deferred income				
- government grants	116	342	116	342
- other	10,376	9,110	10,379	9,164
	<u>64,466</u>	<u>42,552</u>	<u>64,726</u>	<u>42,551</u>

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.

Included within bank loans at 30 September 1997 is a loan totalling £2,700,000 (1996 - £5,325,000) under the European Coal and Steel Community ('ECSC') scheme. The loan bears interest at 9.7% and parts of the loan are subject to interest rebates. The loan is guaranteed by the Bank of Scotland. The group have given a counter-indemnity to the Bank of Scotland in respect of this guarantee.

Also included within bank loans at 30 September 1997 is a term loan totalling £12,000,000 and a revolving credit facility of £6,000,000. These loans bear interest at base rate plus 1.75% and LIBOR plus 2.25%.

Subsequent to the year end, the group renegotiated its facilities with its bankers. The new facilities now comprise a mezzanine term loan of £6,000,000, repayable by December 2000, and bearing interest at LIBOR plus 5%, an overdraft facility of £27,300,000 and the existing ECSC loan.

Notes to accounts (continued)

13 Creditors: Amounts falling due after more than one year

The following amounts are included in creditors falling due after more than one year:

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Obligations under finance leases	2,332	3,013	2,332	3,013
Bank loans (secured)	-	16,200	-	16,200
Deferred government grants	1,022	1,140	1,022	1,140
Pension provision	968	-	968	-
	<u>4,322</u>	<u>20,353</u>	<u>4,322</u>	<u>20,353</u>

Obligations under finance leases are as follows:

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Due within 1 year	1,281	1,548	1,281	1,548
Due within 2-5 years	2,184	2,800	2,184	2,800
Due after 5 years	148	213	148	213
	<u>3,613</u>	<u>4,561</u>	<u>3,613</u>	<u>4,561</u>

14 Provisions for liabilities and charges

Provisions for liabilities and charges comprise:

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Deferred taxation	-	2,730	-	2,725

Deferred tax has been provided to the extent that the directors have concluded, on the basis of reasonable assumptions and the intentions of management, that it is probable that part of the liability will crystallise.

Notes to accounts (continued)

14 Provisions for liabilities and charges (continued)

Deferred taxation:

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Excess of tax allowances over book depreciation of fixed assets	361	2,511	361	2,509
Other timing differences related to:				
- current assets and liabilities	-	114	-	114
- pensions	81	105	81	102
- tax losses available	(442)	-	(442)	-
	<u>-</u>	<u>2,730</u>	<u>-</u>	<u>2,725</u>

The movement on deferred taxation comprises:

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Beginning of year	2,730	2,885	2,725	2,875
Credited to profit and loss account in respect of:				
- capital allowances	(2,511)	(48)	(2,509)	(48)
- other timing differences	(219)	(107)	(216)	(102)
End of year	<u>-</u>	<u>2,730</u>	<u>-</u>	<u>2,725</u>

The amounts of unprovided deferred taxation are as follows:

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Excess of tax allowances over book depreciation of fixed assets	<u>-</u>	<u>875</u>	<u>-</u>	<u>875</u>

Notes to accounts (continued)

15 Called-up equity share capital

	Group and Company	
	1997	1996
	£'000	£'000
<i>Authorised:</i>		
6,000,000 Ordinary and 'A' Ordinary shares of £1 each	<u>6,000</u>	<u>6,000</u>
<i>Allotted, called-up and fully paid:</i>		
Ordinary shares of £1 each	2,818	2,818
'A' Ordinary shares of £1 each	<u>2,187</u>	<u>2,187</u>
	<u>5,005</u>	<u>5,005</u>

Share capital consists entirely of equity shares.

16 Reserves

	Group	Company
	£'000	£'000
Profit and loss account:		
Beginning of year	17,340	16,183
Loss for the financial year	<u>(11,210)</u>	<u>(10,345)</u>
End of year	<u>6,130</u>	<u>5,838</u>

17 Reconciliation of movements in shareholders' funds

	Group	Company
	£'000	£'000
Loss for the financial year	(11,210)	(10,345)
Opening shareholders' funds	<u>22,345</u>	<u>21,188</u>
Closing shareholders' funds	<u>11,135</u>	<u>10,843</u>

Notes to accounts (continued)

18 Reconciliation of operating (loss) profit to operating cash flows

	1997 £'000	1996 £'000
Operating (loss) profit	(11,360)	1,703
Depreciation charges	10,363	6,927
Amortisation of government grants	(1,096)	(823)
Share of profits of associated undertaking	(22)	(7)
Decrease in stock	305	229
Decrease (increase) in debtors	5,284	(1,900)
Increase in creditors	4,487	1,781
Net cash inflow from operating activities	7,961	7,910

19 Analysis of cash flows

	1997 £'000	1996 £'000
<i>Returns on investments and servicing of finance</i>		
Interest paid	(2,005)	(2,513)
Interest element of finance lease rentals	(338)	(373)
Net cash outflow	(2,343)	(2,886)
<i>Taxation</i>		
UK corporation tax received	-	972
Net cash inflow	-	972
<i>Capital expenditure and financial investment</i>		
Purchase of tangible fixed assets	(7,003)	(10,349)
Sale of tangible fixed assets	504	1,735
Government grants received	-	879
Net cash outflow	(6,499)	(7,735)
<i>Acquisitions and disposals</i>		
Sale of associated undertaking	475	-
Net cash inflow	475	-
<i>Financing</i>		
Increase in bank and other loans	-	6,000
Repayment of bank and other loans	(4,125)	(250)
Capital element of finance lease payments	(1,635)	(1,308)
Net cash (outflow) inflow	(5,760)	4,442

Notes to accounts (continued)

20 Analysis and reconciliation of net debt

	1 October 1996 £'000	Cash flows £'000	Other non- cash changes £'000	30 September 1997 £'000
Cash at bank and in hand	257	200	-	457
Bank overdraft	(4,946)	(6,366)	-	(11,312)
		(6,166)		
Debt due after one year	(16,200)	1,500	14,700	-
Debt due within one year	(8,625)	2,625	(14,700)	(20,700)
Finance leases	(4,561)	1,635	(687)	(3,613)
		5,760		
Net debt	(34,075)	(406)	(687)	(35,168)

	1997 £'000	1996 £'000
(Decrease) increase in cash in the year	(6,166)	2,703
Cash inflow (outflow) from increase (decrease) in debt and lease financing	5,760	(4,442)
Change in net debt resulting from cash flows	(406)	(1,739)
New finance leases	(687)	(1,898)
Movement in net debt in year	(1,093)	(3,637)
Net debt at beginning of year	(34,075)	(30,438)
Net debt at end of year	(35,168)	(34,075)

21 Guarantees and other financial commitments

a) Capital commitments

At the end of the year, capital commitments were:

	Group		Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Contracted for but not provided for	1,335	1,119	1,335	1,119

Notes to accounts (continued)

21 Guarantees and other financial commitments (continued)

b) *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 liabilities provided to group companies by the Bank of Scotland.

c) *Lease commitments*

The group has entered into certain non-cancellable leases in respect of motor vehicles, the payments for which extend over a period of up to 4 years. The total annual rental (including interest) for the year ended 30 September 1997 was £330,400 (1996 - £298,955), all of which was applicable to the company.

The minimum annual rentals under the foregoing leases are as follows:

	Group and Company	
	1997	1996
	£'000	£'000
Operating leases which expire:		
- within 1 year	94	70
- within 2-5 years	267	193
	<u>361</u>	<u>263</u>

d) *Pension arrangements*

The pension cost charge for the year was £968,000 (1996 - £729,000), made up of a regular cost of £1,398,000 (1996 - £1,184,000) less variation from regular cost of £430,000 (1996 - £455,000). Variation from regular cost represents the amortisation of the additional actuarial surplus identified in the most recent actuarial valuation.

A provision of £968,000 (1996 - prepayment of £319,000) 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.

At the date of the latest actuarial valuation, 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. The surplus is currently being utilised by improvements to benefits and in a contribution holiday.

Notes to accounts (continued)

21 Guarantees and other financial commitments (continued)

d) Pension arrangements (continued)

On first adopting SSAP 24, Accounting for Pension Costs, on 30 September 1989, there was an actuarial surplus of £3,603,000. This was debited to prepaid pension contributions, net of deferred tax, and credited to retained earnings. In subsequent years the prepayment is being reduced by improvements to benefits and a pension contribution holiday and the profit and loss account is being charged with the regular pension cost and subsequent variations. This prepayment was fully utilised in the current year.

In implementing the Barber judgement, retirement ages for males and females have been equalised at age 65.

22 Related party transactions

The group incurred road haulage costs of £614,000 (1996 - £722,000) from its associated undertaking, Douglas Millar (Transport) Limited, prior to the sale of the associated undertaking in June 1997.

23 Basis of preparing the accounts

At 30 September 1997, the company and the group had net current liabilities of approximately £32,500,000 and note 24 refers to the results of trading since the end of the year.

At the date of approval of these accounts, the group is not complying with all of the covenants it has given to its bankers and accordingly the bank is keeping the loan and overdraft facilities it makes available to the group under regular and close review. The directors are of the opinion that actions currently in hand will result in the group's bankers continuing to provide appropriate facilities and on this basis, the directors consider it appropriate to prepare the accounts on the going concern basis. However, there is no certainty as to the actions that the group's bankers may take in these circumstances and the accounts do not include any adjustments that would result from a withdrawal of the loan and overdraft facilities by them.

24 Subsequent events

a) Trading since the end of the year

Unaudited management accounts for the 8 month period ended 31 May 1998 disclose a loss on ordinary activities before taxation of approximately £5,500,000.

b) Debt factoring agreement

Subsequent to 30 September 1997, the company entered into a debt factoring arrangement with Kellock Limited.