

1357837

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Corporate statement

“The Cavaghan & Gray Group PLC
is totally committed to providing
excellence of quality and service
upon which its customers can rely
and of which its employees can feel
justifiably proud”



Chairman's Statement



M D Abrahams
Chairman

Overview

In the period reported a major strategic transformation of the Company was achieved. The former Dalepak Foods PLC acquired Cavaghan & Gray Limited on 1 December 1995, and the enlarged Company was re-named Cavaghan & Gray Group PLC. This has laid the foundations for the development of a more broadly based and increasingly competitive food supply group.

Because the Group came together part-way through the financial period these accounts reflect 11 months of the former Dalepak Foods PLC and 4 months of Cavaghan & Gray Limited. For this reason and also because of the many changes which have been implemented subsequent to the merger, comparisons are difficult. In order to try to show more clearly the shape and potential of the new Group, a proforma operating profit statement is appended on page 44 of these accounts which shows unaudited trading figures for both companies for the 12 months to 31 March 1996. The Operating Review details the Group's major business areas and activities.

Financial Review

The statutory accounts for the combined business as detailed above show turnover of £80.6 million and operating profits before exceptionals of £1.8 million. There were exceptional items of £2.6 million and interest of £1 million. This resulted in a loss after tax of £1.2 million. The exceptional items consisted mainly of redundancies and reorganisation costs throughout the enlarged Group, along with a provision of £1 million on raw materials, finished goods and packaging, incurred as a result of the drop in sales due to B.S.E.

The proforma comparison of the 12 months trading of the Group to 31 March 1996 compared to the previous 12 months to 31 March 1995 shows a fall in the profits of both businesses.

In the case of Dalepak Foods, as detailed at the time of the merger, this was due to the continuing problems encountered in the acquisition of Ross Young's Frozen Meat Products business in 1994.

In the case of Cavaghan & Gray, costs of raw materials, labour and overheads rose more than anticipated in the busy period leading up to Christmas and continued through February and into March, since when a cost savings programme has been implemented and the benefits are now being realised.

Balance Sheet

Gearing at the year end was 66%, due to higher rationalisation and reorganisation costs and a higher than anticipated level of beef related stocks due to a virtual standstill in the sales of beef products in the last week of the financial period. It is anticipated that gearing will be reduced during the current financial year.

B.S.E.

The effects of the B.S.E. issue on the Group's trading have been significant.

At the Dalepak Foods Leeming Bar business a stock provision of £1 million has been made, largely for write-down of year end stocks of beef raw materials, finished goods and packaging. However, the loss of sales of beef products, which has been around 50%, has now largely been replaced by alternative products. The Directors believe that the provision is adequate and that there will be no further distortions in the trading of this Division in the current year, as a result of B.S.E.

The Cavaghan & Gray Carlisle business has encountered considerable problems in replacing, in the short-term, sales of its beef related products. These accounted for 20% of this Division's total sales. The sales of these beef based products have fallen by 35% against last year's levels. While some replacement has taken place with alternative products, the Directors believe that it will take at least until the end of the current financial year to replace fully this business.

Current Trading

As planned at the time of the merger, the Group has successfully implemented a programme of integration and reorganisation

of its businesses. The Group's businesses have now been organised into four Divisions: Prepared Chilled Food; Frozen Food Retail; Frozen Food Catering and Supplies. As a result of integrating the two businesses, overheads are now running at a lower rate than last year throughout the Group. The Group's greater purchasing power has resulted in savings in prices of raw materials, packaging and services.

The Dalepak Foods business at Leeming Bar has returned to profit. The refurbishment of the Fawcetts factory at Hull is very nearly complete and a new product development programme is underway. It is anticipated that the Hull business will trade profitably in the Autumn.

The Emile Tissot Food Services business in Telford and the Alex Ross Fish Procuring Division in Aberdeen continue to perform well.

The Cavaghan & Gray Carlisle business has made considerable progress, having implemented substantial operational savings and enhanced its development programme for the Autumn. However, current trading is considerably distorted by the effects of the B.S.E. crisis, which is still having a material affect on the Company's trading.

Capital Expenditure

The Group plans to spend around £5 million in the current financial year. This programme is detailed in the Operating Review.

Management and Staff

Your Board has also taken the opportunity, presented by the merger, to undertake a fundamental review of management structures which are now being reorganised. It is anticipated that some key senior management appointments will be made over the next few months.

Once this process has been completed, the Board believes that the Group will be well positioned to take maximum advantage of the market opportunities which have been created by the merger.

The integration of the two businesses inevitably imposes strains on management and staff and the additional problems caused by B.S.E. have added to these. We are fortunate to have highly motivated and skilled staff throughout the Group and the Board is greatly appreciative of their commitment and hard work.

Dividends

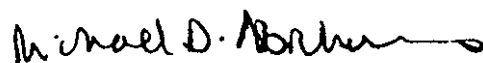
Your Board is recommending a final dividend of 2.7p per share as stated at the time of the merger. This, along with the first and second interim dividends of 0.5p and 1p respectively makes a total dividend of 4.2p for the year.

Outlook

The Group has made significant progress in implementing the merger of the two businesses. The B.S.E. crisis has distorted an otherwise satisfactory trading result in the first quarter of 1996/97 and as a consequence of this continuing problem the Group's profits for the coming year will be less than anticipated at the time of the merger. This does not reflect the underlying picture of the Group's profitability, as rapid progress has been made in reducing costs and taking advantage of combining the two businesses.

The Board believe that the newly formed Group has created a powerful base on which to build for the future. It has close relationships with its major customers. Through its Produce and Fish Procuring Division it provides a comprehensive service. The skills from the Cavaghan & Gray product development team have already had a beneficial affect on developing innovative product ideas throughout the Group.

The Group's major businesses are sound and in good shape. The Group is now a well integrated and competitive part of the food supply business. The Directors believe that as the Group progressively lowers its dependence on beef, the benefits of the merger will flow through in ensuing years.



M D Abrahams CBE, DL
Chairman

Directors

**Michael David Abrahams, CBE, DL,
Chairman (58)**

Appointed Chairman 29 April 1992.
Non-executive Director since November 1985.
Deputy Chairman – Prudential Corporation PLC.
Non-executive Director – John Waddington PLC
and Drummond Group PLC. Chairman of The
London Clinic.

**Howard Ronald Sims, ACMA,
Chief Executive (48)**

Appointed Chief Executive following the merger
on 1 December 1995.
Joined the Company in September 1994 as a
Non-executive Director.
Previously employed as Chief Executive of
Cavaghan & Gray Limited joining the company in
1971.

**Peter Nicholas Holley, FCA,
Finance Director (46)**

Joined the Company in 1977 having previously
trained at KPMG.
Appointed Finance Director in 1982.

**John Patrick Murphy, FCMA, FCCA,
Commercial Director (45)**

Appointed Commercial Director following the
merger on 1 December 1995.
Joined Cavaghan & Gray Limited as Finance
Director and Company Secretary (designate)
in 1990.
Previously employed as UK Finance Director of
Prestige Group UK PLC.

**David Peter Miller, BSc,
Technical Director (44)**

Appointed Technical Director following the
merger on 1 December 1995.
Appointed Technical and Development Director
of Cavaghan & Gray Limited in 1995.
Joined Cavaghan & Gray Limited in 1991.
Previously employed as Technical Director of
Pinneys of Scotland Limited.

**Thomas Henry Phelps Brown, MA, MBA,
Non-executive Director (47)**

Joined the Company in October 1992.
Group Chief Executive of United Industries plc.

**James Allan Nightingale, CBE,
Non-executive Director (70)**

Appointed 1 December 1995 following the
merger; previously a Non-executive Director of
Cavaghan & Gray Limited.
Previously a Director of Courtaulds PLC between
1976 to 1984 and recently Vice Chairman and
Treasurer of Eurotex.

Audit Committee

M D Abrahams, T H P Brown, J A Nightingale

Remuneration Committee

M D Abrahams, T H P Brown, J A Nightingale

Nominations Committee

M D Abrahams, T H P Brown, J A Nightingale,
H R Sims

Company Secretary

P N Holley

Registered Office

Brunel House, Brunel Way, Carlisle, Cumbria,
CA1 3NQ

Registered Number

1357837

**Stock Brokers**

de Zoete & Bevan Limited, Ebbgate House,
2 Swan Lane, London EC4R 3TS

Registrars and Transfer Office

Independent Registrars Group Limited
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

Auditors

Price Waterhouse
89 Sandyford Road
Newcastle upon Tyne
NE99 1PL

Bankers

Clydesdale Bank PLC
30 St. Vincent Place
Glasgow
G1 2HL

Barclays Bank PLC
Bedale Branch
PO Box 40
Northallerton
North Yorkshire
DL7 8XD

Financial Advisers

Robert Fleming & Co Limited
25 Cophall Avenue
London
EC2R 7DR

Financial Public Relations

Cardew & Co Limited
12 Suffolk Street
London
SW1 Y4HQ

Solicitors

Wilkinson Maughan
Sun Alliance House
35 Mosley Street
Newcastle upon Tyne
NE1 1XX

Financial Calendar

Interim results - January
Interim dividend - April
Final results - July
Final dividend - October

Operating Review



H R Sims
Chief Executive

The Cavaghan & Gray Group PLC was formed on 1 December 1995 following the merger of Dalepak Foods PLC with Cavaghan & Gray Limited.

The new Group has now been organised into four Divisions:

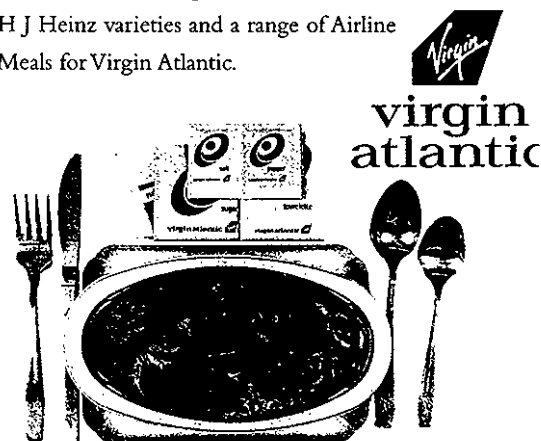
- Prepared Chilled Food,
- Frozen Food Retail,
- Frozen Food Catering and
- Supplies.

The following review covers the performance of the divisions during the 12 months ended 31 March 1996.

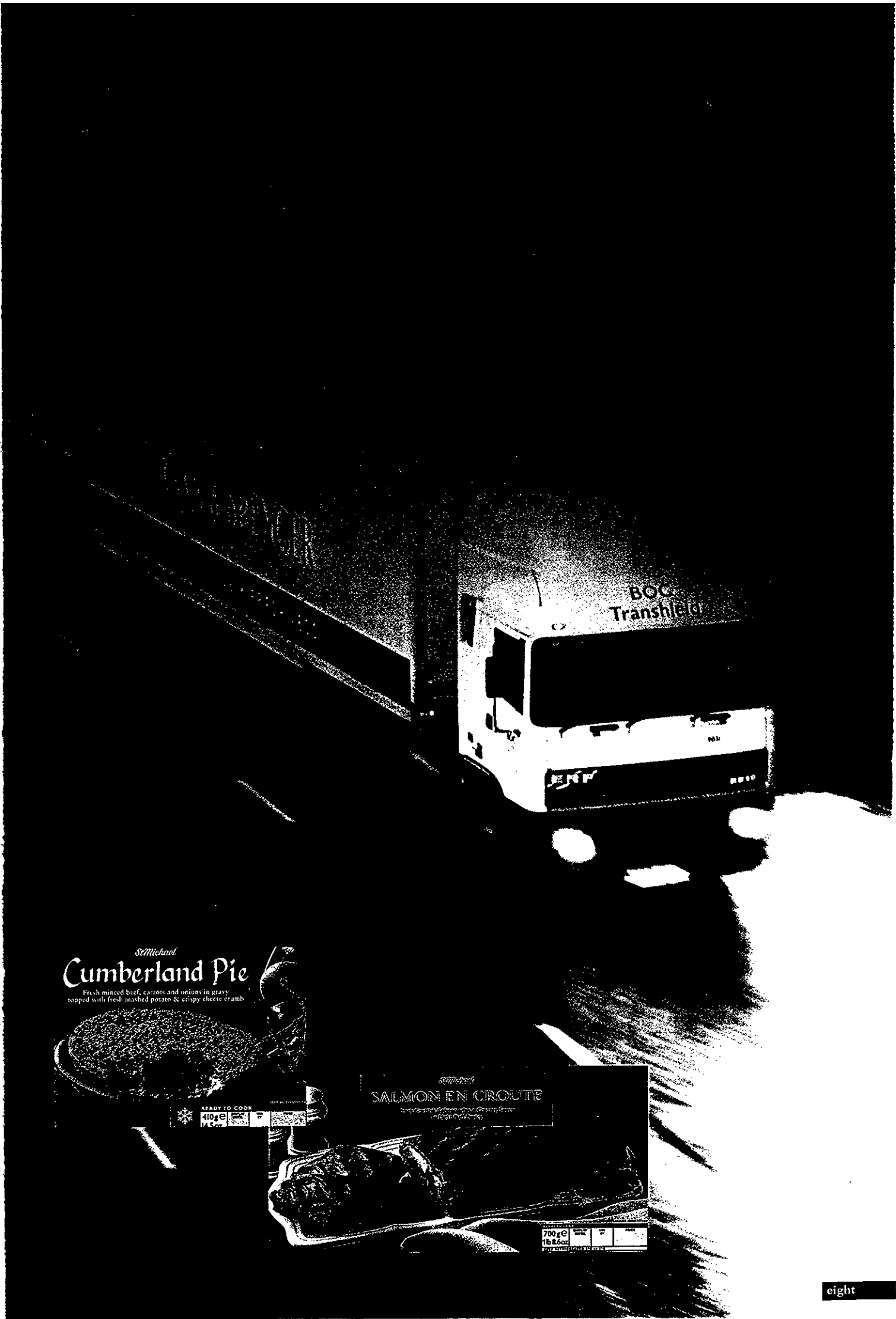


Prepared Chilled Food

This Division operates from four factories located in Carlisle and had an annual turnover in 1995/96, excluding inter-company sales, of £78.7 million. These factories manufacture a wide range of chilled products, principally for Marks & Spencer, including:- Potato Topped Pies, Quiches, Recipe Dishes, Crispbakes, Party Foods and Desserts. In addition, the Division manufactures meat products for use in H J Heinz varieties and a range of Airline Meals for Virgin Atlantic.

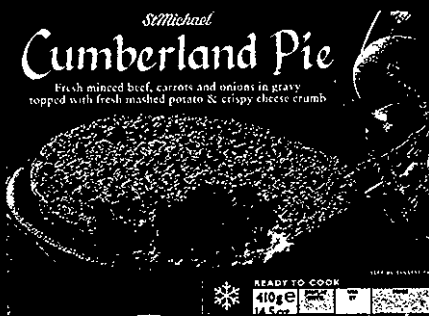


Sales in this Division were 6% ahead of the previous year, with sales of Party Food at Christmas showing an increase of 20%. However, profitability was depressed due to the build up of higher than anticipated labour and overheads in the busy period up to Christmas. This matter has now been addressed and will not be repeated in the current financial year. In addition, the exceptionally hot summer resulted in higher vegetable prices and poor yields. Competitive pressures in the market place meant that only a small part of these costs could be recovered through higher selling prices.



StMichael
Cumberland Pie

Fresh minced beef, carrots and onions in gravy topped with fresh mashed potato & crispy cheddar crumb



StMichael
SALMON EN CROUTE

With Creamy Sauce and Gravy Sauce



Operating Review continued

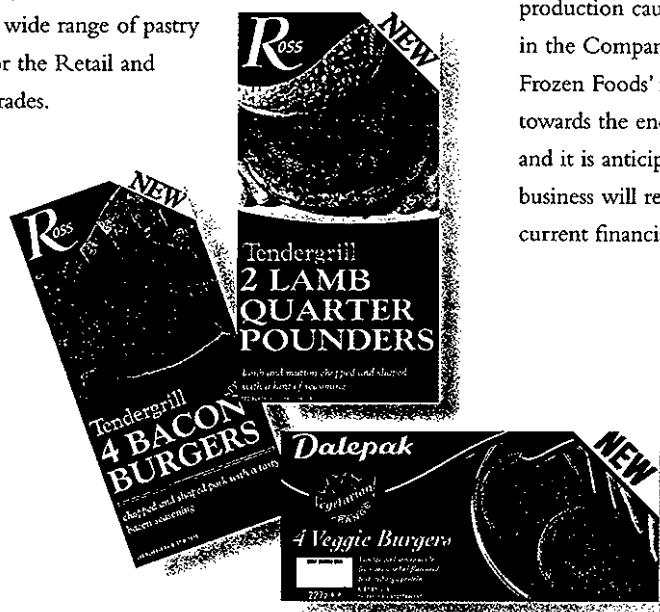
Frozen Food Retail

This Division consists of the Dalepak Foods and Fawcetts Frozen Foods businesses. Turnover in 1995/96 was £47.7 million. Dalepak Frozen Foods, based at Leeming Bar near Northallerton, produces and markets a range of Meat and Vegetable Grills and Burgers under the Dalepak and Ross Brands, as well as Own Label. It supplies all the major food retailers with the exception of Marks & Spencer.

Fawcett Frozen Foods, from its newly refurbished premises in Hull, produces a wide range of pastry products for the Retail and Catering Trades.



Following the acquisition of the Ross Young's Frozen Meat Products business in late 1994, the integration and reorganisation of production caused major problems, resulting in the Company making losses. The Dalepak Frozen Foods' factory returned to profit towards the end of the period under review and it is anticipated that the Fawcetts (Hull) business will return to profitability in the current financial year.



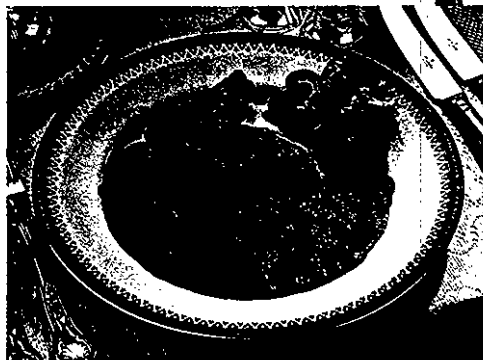


Operating Review continued

Frozen Food Catering

This Division is based in Telford and trades as Emile Tissot Foods. It was acquired by Cavaghan & Gray in 1992 and supplies Frozen Ready Meals to the Catering Trade. The turnover in 1995/96 was £7.7 million, which was 3% up on the previous year; profitability also increased through lowering the cost base of the operation.

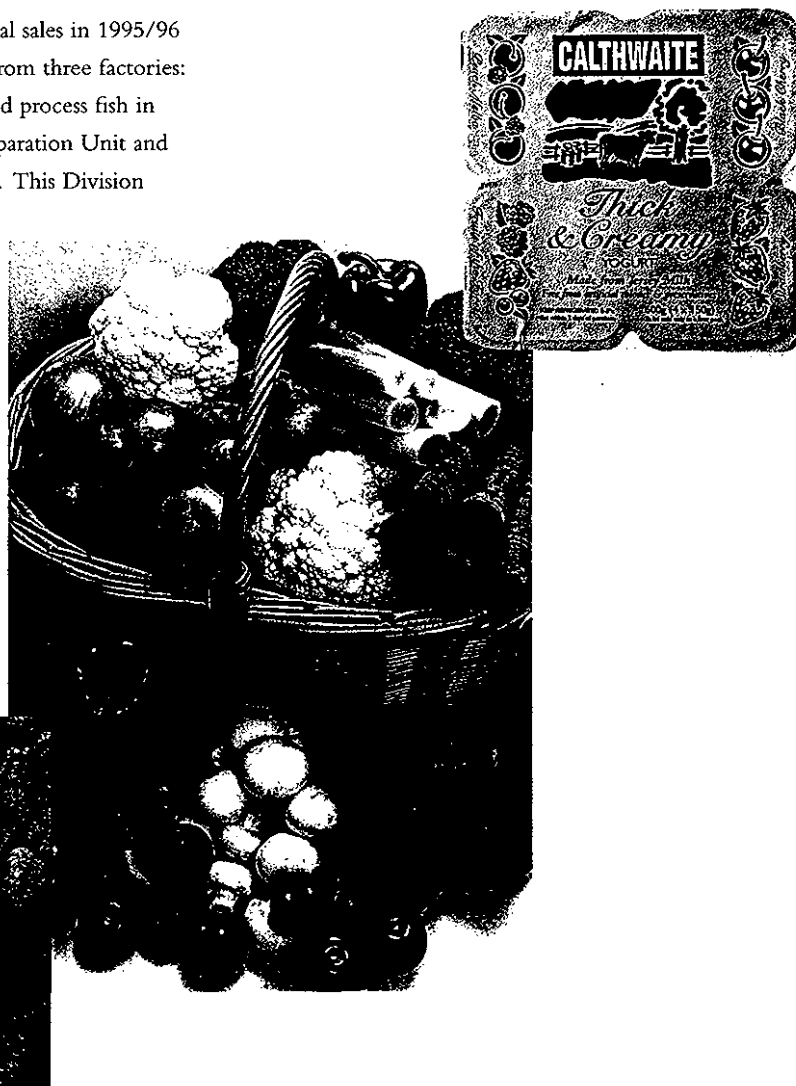
A capital expenditure programme to increase efficiency is underway which will result in increased production capacity and lower costs, the benefits of which will be seen in 1996/97.





Supplies Division

This Division had external sales in 1995/96 of £9.6 million, generated from three factories: Alex Ross, who purchase and process fish in Aberdeen, the Vegetable Preparation Unit and Calthwaite Dairy in Carlisle. This Division enables the Group to procure and process quality raw materials for use in 'Added Value' products. This is a major factor in the Group's product development programme. Calthwaite Dairy also supplies Branded and Own Label Yoghurts to the major supermarkets, as well as a range of Pot Desserts to Marks & Spencer.



Integration

Following the merger, the integration of the two businesses has gone well. Cost savings have been achieved in packaging, dry goods and utilities. Better use is being made of the internal supply of raw materials, thereby improving yields and factory efficiencies. Indirect labour costs have been reduced where duplication existed. As a result of this rationalisation, Dale House, the previous Head Office at Leeming Bar, will be sold.

The Group has withdrawn from two areas of the business which were regarded as non-core activities: the Cavaghan & Gray Van Sales operation in Carlisle, which in recent years has been adversely affected by the decline of independent retailers, and the Ready Meals Factory at Leeming Bar, which was in need of major investment. Some of the sales from this factory have been transferred elsewhere within the Group.

Capital Expenditure

Capital expenditure is planned to be around £5 million in the current year. The major projects are:

- 1) A reorganisation of Chilled Ready Meals capacity in Carlisle which will improve product flow and efficiencies.
- 2) Installation of in-line manufacture and freezing in the Frozen Food Catering operation at Telford, reducing the cost base and increasing capacity.
- 3) Completion of the refurbishment at Fawcetts factory in Hull.
- 4) Upgrading production facilities at Leeming Bar.

These projects will be completed during 1996/97.

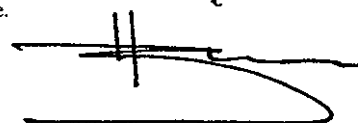
B.S.E.

Towards the end of the financial period, the Government announced the possible link between B.S.E. in cattle and C.J.D. in humans. Sales of beef products immediately fell. This necessitated a significant stock provision in the Frozen Food Retail Division as detailed in the Chairman's Statement. However, the continuing effect is lower sales of beef products in all the Group's businesses. Whilst sales of Frozen Food Retail non-beef products have increased to compensate for the downturn, it is anticipated that it will take the other Divisions until the end of the current financial year to recover. Customer confidence is slowly recovering, but a strong new product development programme is planned to make full use of alternative proteins.

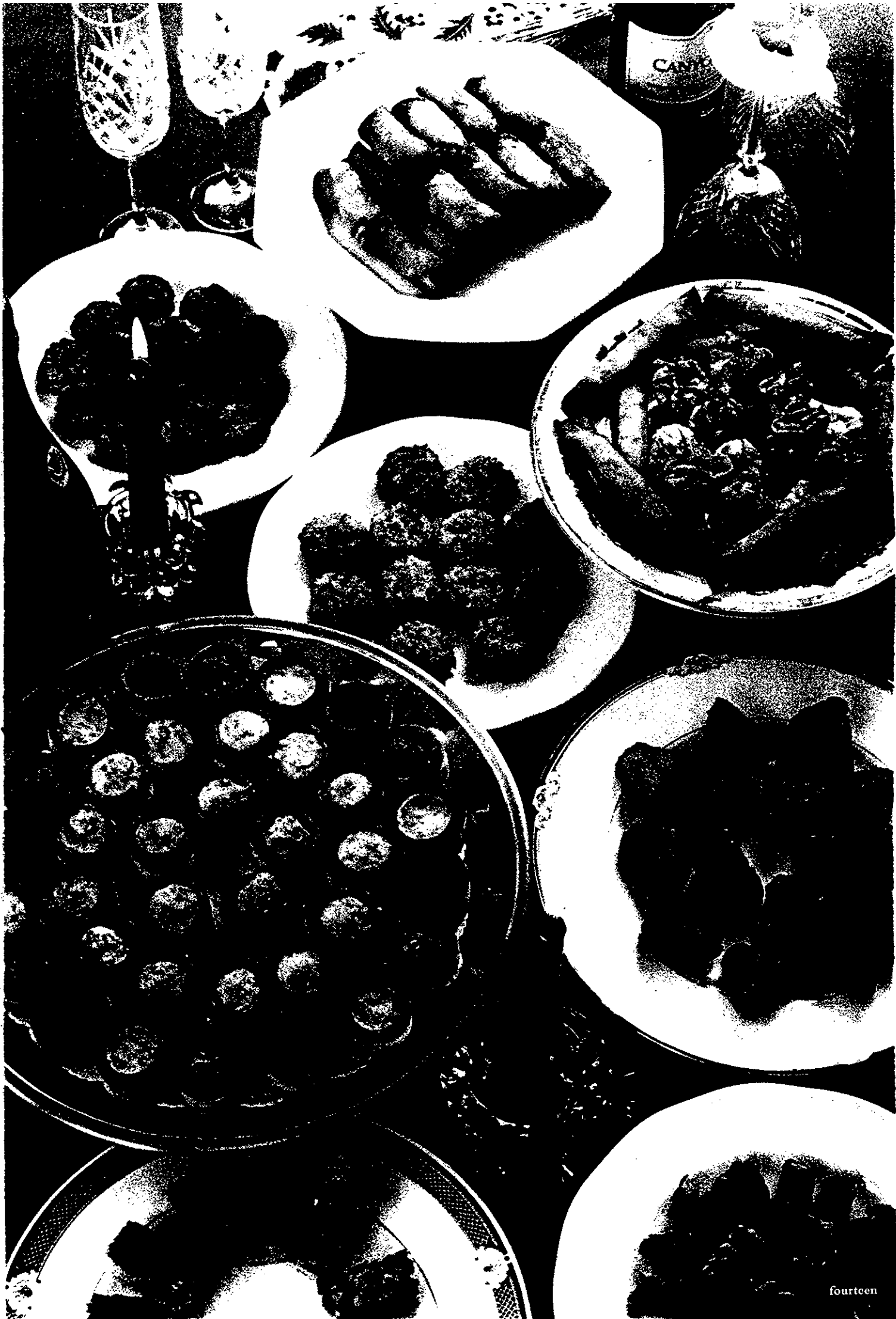
Conclusion

Despite the problems caused by B.S.E., the businesses have come together well. The emphasis of the Group remains to improve quality and to work closely with our customers on product innovation.

I am deeply grateful to our workforce for their loyal support during this period of change and reorganisation. I look forward to the future with confidence.



H R Sims
Chief Executive



Directors' report

The Directors have pleasure in submitting their report and financial statements for the eleven months ended 31 March 1996.

Merger

On 3 November 1995 the Board announced that agreement had been reached on the terms of a merger between the Company and Cavaghan & Gray Limited. This transaction was completed on 1 December 1995 and, pursuant to the terms of the merger, the name of the Company was changed from Dalepak Foods PLC to Cavaghan & Gray Group PLC and the accounting reference period was changed to 31 March 1996.

Share capital

The consideration for Cavaghan & Gray Limited Ordinary and Convertible shares was satisfied by issuing 41,179,050 new shares in the company. In addition, and in conjunction with the merger, the Company issued 14,344,393 new ordinary shares at 105p each for cash to provide the Enlarged Group with additional funds.

Results and dividends

The Group's loss for the financial period after taxation amounted to £1,234,000 (1995: profit £423,000). The Directors recommend a final dividend of 2.7p per share amounting to £1,811,000 making a total of 4.2p per share and £2,540,000 for the period. The retained loss for this period is £3,774,000 (1995: profit £169,000).

Principal activity

The principal activity of the Enlarged Group is the manufacture and marketing of a range of chilled and frozen food products for the retail and catering trades.

Review of business

The future outlook and business review of the Group for the period ended 31 March 1996 are reported in the Chairman's Statement and Operating Review.

Directors

The Directors who served during the period were as follows:

M D Abrahams, CBE, DL	(Chairman)
H R Sims, ACMA	(Chief Executive from 1 December 1995)
P N Holley, FCA	
T H P Brown, MA, MBA	(Non-executive)
J A Nightingale, CBE	(Non-executive) (appointed 1 December 1995)
J P Murphy, FCMA, FCCA	(Appointed 1 December 1995)
D P Miller, BSc	(Appointed 1 December 1995)
C R Ivory, MA (Cantab)	(Chief Executive until resignation on 2 November 1995)
E Honeywell	(Resigned 2 November 1995)
R S E Tucknott, BA Hons	(Resigned 2 November 1995)

None of the Directors has an interest in any contract other than service contracts, (or in the case of the Chairman, a contract for his services) with the Company or its subsidiaries.

J P Murphy and D P Miller who were appointed since the last Annual General Meeting retire in accordance with the Articles of Association and being eligible offer themselves for re-election.

The Director retiring by rotation is T H P Brown who, being eligible, offers himself for re-election.

Directors' report (continued)

Liability insurance

During the period the Company maintained insurance against liabilities of its Directors and Officers as permitted by section 310 of the Companies Act 1985.

Substantial shareholdings

At 11 July 1996 the Company had been advised of the following notifiable interests (as redefined by the Disclosure of Interests in Shares (Amended) Regulations 1993) in its issued ordinary share capital:

	Ordinary shares	%
3i Group PLC	9,253,125	13.79
Scottish Widows' Fund & Life Assurance Society	2,719,691	4.05

Corporate governance

The Company has complied throughout the financial period with those elements of the Code of Best Practice issued by the Cadbury Committee on the Financial Aspects of Corporate Governance with the exception of the Chairman's employment contract which does not state that he is appointed for a specific term. On an annual basis the Chairman retires and seeks re-election by the Board prior to the Annual General Meeting.

Going Concern

Based on the projections of results and on committed borrowing facilities available to the Group, the Directors have a reasonable expectation that the Company and the Group as a whole have adequate financial resources to continue in operational existence for the foreseeable future. The financial statements have therefore been prepared on the going concern basis.

Internal financial control

The Board of Directors is responsible for the Group's system of internal financial control which aims to safeguard Group assets, ensure proper accounting records are maintained and that the financial information used within the business, and for publication, is reliable. The system addresses and monitors key business and financial risks and is designed to provide reasonable but not absolute assurance against material misstatement or loss. The Board has delegated implementation of financial controls to executive management within the Group.

Following the merger with Cavaghan & Gray Limited the Directors, through the Audit Committee, have reviewed the existing financial control procedures. In order to enhance the standard of financial control in the Enlarged Group they intend to introduce an organisation structure with clearly defined operating procedures and reinforced lines of management responsibility, and a system of detailed monthly reporting and comparison of results against budget, with performance monitoring and explanations provided for significant variances.

The other key elements of the internal financial control procedures are as follows:

- a defined policy on matters strictly reserved for the Board;
- a comprehensive budgeting system with an annual budget approved by the Board;
- a defined procedure for seeking and obtaining approval for major transactions;
- regular reporting to the Board on financial, legal and insurance matters;
- the Audit Committee, whose objectives are to examine and review the effectiveness of internal controls, including the work of the external auditors and the Group's financial and accounting policies. The Committee also considers reporting practices and matters which may be brought to its attention by the external auditors. The Audit Committee comprises all of the Non-executive Directors.

Directors' report (continued)

Employment policies

The Group recognises the importance of good labour relations and communications. Information on financial, economic and other matters of concern to employees is given through employee briefings, the Company newsletter and through the departmental management structure. There are regular consultations with employees at all levels through departmental management, committees and union representatives.

It is the Group's policy to comply with the safety and health measures required by law and also to act positively to ensure that its premises are safe and healthy places in which to work.

Substantial resources are directed to training to ensure that the Group maintains a well trained and adaptable workforce at all levels. The Group's policy and practice is to encourage where possible the recruitment and career development of disabled people and employees who may become disabled.

Environmental policy statement

The Group is committed to pursuing sound environmental policies in every aspect of its business. It seeks to encourage and promote good environmental practice amongst its employees, customers, suppliers and within the local communities in which it operates.

Political and charitable donations

No donations have been made to political parties during the period. Total charitable donations during the period were £9,550 (1995: £2,950).

Close company status

The Company is not a close company within the meaning of section 414 of the Income and Corporation Taxes Act 1988.

CREST

CREST is the new computerised system for settling sales and purchases of quoted shares and other securities on the London Stock Exchange. It is expected that CREST will largely replace the existing paper based system. However, as CREST is a voluntary system, shareholders will be able to choose whether they wish to hold their shares in electronic form or retain their share certificates.

On 23 July 1996, the Company resolved by a resolution of its Directors ('The Directors' Resolution') that title to the ordinary shares of 5p each in the capital of the Company, in issue or to be issued, may be transferred by means of an electronic system such as CREST. The Directors' Resolution will become effective immediately prior to CRESTCo Limited granting permission for the shares concerned to be transferred by means of the CREST system. This is expected to be sometime in February 1997.

Creditor payment policy

Payments are made to merchandise suppliers in accordance with the general conditions of purchase (which are communicated to suppliers) or the specific terms agreed with suppliers.

Directors' report (continued)

Auditors

Following the merger with Cavaghan & Gray Limited, KPMG resigned as auditors and Price Waterhouse, the auditors of Cavaghan & Gray Limited, were appointed. Price Waterhouse have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

Annual General Meeting

The formal notice convening the Company's Annual General Meeting for the year is set out on pages 45 and 46.

By Order of the Board

P N Holley

Secretary

30 July 1996



Report of the Auditors'

To the Directors of Cavaghan & Gray Group PLC on Corporate Governance Matters

In addition to our audit of the financial statements we have reviewed your statements on page 16 concerning the Group's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code, if not otherwise disclosed.

Basis of opinion

We carried out our review having regard to the Bulletin 1995/1 'Disclosure relating to corporate governance' issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures nor on the ability of the Group to continue in operational existence.

Opinion

In our opinion, your statements on internal financial controls and on going concern on page 16, have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related Guidance for Directors) and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain Directors and Officers of the Company and examination of relevant documents, your statements on page 16 appropriately reflect the Group's compliance with the other paragraphs of the Code specified for our review.


Price Waterhouse

Chartered Accountants
Newcastle-upon-Tyne
30 July 1996

Report of the Remuneration Committee

The Remuneration Committee determines the remuneration policy and its application in respect of the Executive Directors.

The members of the Committee are MD Abrahams (Chairman), THP Brown and JA Nightingale, all of whom are Non-executive Directors of the Company.

The Committee consults with the Chief Executive about remuneration proposals in respect of other Executive Directors and has access to professional advice from outside the Company as well as detailed information about the remuneration practices of companies of similar size.

The underlying purpose of the remuneration policy and its application in respect of Executive Directors is to support the ability of the company to recruit and retain executives of the calibre required to deliver its overall business objectives.

Remuneration

The Executive Directors' remuneration will comprise:

- a **basic salary** that is intended to reflect the basic salaries paid by other UK public companies of broadly comparable dimensions to individuals with broadly similar accountabilities. Under normal circumstances, the preferred level for basic salary is approximately the median of the market but will be determined in the light of their level of experience and sustained level of personal performance against their accountabilities. Business performance will essentially be reflected through other elements of the remuneration package;
- an **annual bonus** that will reflect the financial performances of the business measured against pre-determined annual targets. The key indicators of performance may well vary from year to year as the challenges and opportunities faced by the business also change. The Remuneration Committee will determine annually, prior to the start of the financial year, both the performance indicators and standards of performance required.

To build a link between the short and long term performances of the business executives will be encouraged to invest bonus payments in shares in the Company and to retain those shares for a reasonable period. Details of the guidelines for the granting of options are set out below.

The bonus plan will commence in the financial year starting in 1997 and the detailed performance criteria and payment scale will be determined shortly prior to the start of the financial year. Proposals in respect of the plan are set out in the letter from the Chairman which accompanies these Financial Statements. The application of the annual bonus scheme is to be put to shareholders at the Annual General Meeting to be held on 27 September 1996.

- a **share option** scheme that is designed and applied to reward executives for growth in the share price of the Company over a sustained period on the condition that there is also an acceptable improvement in the financial performance of the Company. To reflect the objective of encouraging executives to build a substantial holding of shares in the Company in relation to their level of earnings the level of grant and right to exercise options granted under the share option scheme will reflect the extent to which the number of shares owned by executives are reasonable in the context of payments made under the annual bonus plan. This will apply to options already granted to HR Sims

A grant was made under the executive share option scheme on 29 February 1996 to HR Sims. The price at which the options can be exercised is £1.078. The aggregate value of the exercise price of the options is £660,000. The performance target for exercising the share options is achieving earnings per share growth of two per cent plus the increase in the Retail Price Index from base earning per share of 6.49p for each financial year up to 1999.

Report of the Remuneration Committee (continued)

- In the case of certain Executive Directors a pension, which is payable at the age of 60, equal to two thirds of basic salary, reduced where service to age of 60 is less than 20 years and subject to Inland Revenue limits. Death in service cover is a lump sum equal to four times pensionable earnings. On the death of a Director, or retired Director, a spouse's pension of 66% would be payable.

Early retirement may be granted with the consent of the Company and the Trustees of the scheme from the age of 50 but benefits are reduced in line with advice from the actuary such that early retirement is cost neutral. In payment only the Guaranteed Minimum Pension accrual after 1988 is increased in line with inflation up to a ceiling of 3% per annum.

The Company will comply with any further implementation of the recommendations of the Institute and Faculty of Actuaries as and when the DTI and the London Stock Exchange finalise the relevant disclosure requirements;

- private medical cover for themselves and their families;
- a fully expensed car of a type and value consistent with their responsibilities.

Directors' Service Contracts

The notice period contained in Executive Directors' contracts has recently been reduced from three years. In the case of the Chief Executive the notice period is now twelve months. Other Executive Directors have service agreements which are terminable by the Company on twenty-four months' notice. It is the Board's view that this is appropriate at this point in time but it will continue to review notice periods with the intention of making twelve months notice the standard. In order to attract Executive Directors of the highest calibre, however, it may be appropriate to offer initial notice periods in excess of twelve months.

In the event of any Executive Director's contract being terminated for reasons that could amount to breach of contract by the Company the amount of compensation payable will take into account all relevant circumstances and the Directors' duty to mitigate their loss.

The Chairman and Non-executives Directors do not have contracts and are engaged in accordance with letters of appointment which do not include any obligation to compensation on their ceasing to be Directors of the Company.

Non-executive Directors

The Non-executive Directors' emoluments are determined by the Committee. The emoluments reflect the time devoted to the Board and the Board Committees. Non-executive Directors do not participate in bonus schemes, option schemes or the pension scheme of the Company.

Policy on external appointments

Executive Directors are not permitted to accept any outside business involvement in either an executive or non-executive role without the consent of the Board. Consent would not be given for appointments with competing companies or in respect of which any conflict of interest might arise. Any fees received would be remitted to the Company.

Details of the Directors' remunerations, share options and shareholdings are given in note 5 to the accounts.

Directors' responsibilities for the accounts

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 Group and of the profit or loss of the Group 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume the Group 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 the Group 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.

By Order of the Board

P N Holley

Secretary

30 July 1996



Auditors' report to the members of Cavaghan & Gray Group PLC

We have audited the financial statements on pages 24 to 43 which have been prepared under the historical cost convention and the accounting policies set out on pages 27 to 28.

Respective responsibilities of Directors and Auditors

As described on page 22 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.

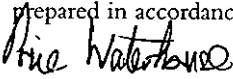

Basis of opinion

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 Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 1996 and of the loss and cash flows of the Group for the eleven months then ended and have been properly prepared in accordance with the Companies Act 1985.


Price Waterhouse 

Chartered Accountants
and Registered Auditors
Newcastle-upon-Tyne
30 July 1996

Group profit and loss account

for the eleven months ended 31 March 1996

		Existing operations	Acquisition	Total for continuing operations	1995
	Notes	£'000	£'000	£'000	£'000
Turnover	2	43,816	36,813	80,629	42,502
Cost of sales					
recurring		(40,696)	(31,745)	(72,441)	(37,084)
exceptional	6	(1,000)	—	(1,000)	—
		(41,696)	(31,745)	(73,441)	(37,084)
Gross profit		2,120	5,068	7,188	5,418
Selling and distribution costs		(1,728)	(939)	(2,667)	(2,048)
Administrative expenses					
recurring		(1,664)	(2,170)	(3,834)	(1,676)
exceptional	6	(1,151)	(427)	(1,578)	(721)
		(2,815)	(2,597)	(5,412)	(2,397)
Other operating income		—	145	145	—
Operating profit/(loss)	3				
recurring		(272)	2,104	1,832	1,694
exceptional		(2,151)	(427)	(2,578)	(721)
		(2,423)	1,677	(746)	973
Net interest					
recurring				(844)	(341)
exceptional				(150)	—
	7			(994)	(341)
(Loss)/profit on ordinary activities before taxation				(1,740)	632
Taxation on (loss)/profit on ordinary activities	8			506	(209)
(Loss)/profit for the financial period	9			(1,234)	423
Dividends (Equity)	10			(2,540)	(254)
Retained (loss)/profit	21			(3,774)	169
Basic (loss)/earnings per share	11			(3.89p)	3.66p
Adjusted earnings per share	11			2.04p	7.83p

A statement of movements in reserves is given in note 21.

There are no recognised gains or losses other than the profit or loss for the financial period.

Balance sheets

at 31 March 1996

	Notes	Group		Company	
		31 March 1996	30 April 1995 Re-stated	31 March 1996	30 April 1995 Re-stated
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	12	49,248	11,383	13,340	11,383
Investments	13	369	361	4,647	1,299
		<u>49,617</u>	<u>11,744</u>	<u>17,987</u>	<u>12,682</u>
Current assets					
Stocks	14	13,482	8,823	8,110	8,823
Debtors	15	15,201	7,617	12,844	7,617
Cash		6	2	—	2
		<u>28,689</u>	<u>16,442</u>	<u>20,954</u>	<u>16,442</u>
Creditors: amounts falling due within one year	16	(32,469)	(12,529)	(15,071)	(12,529)
Net current (liabilities)/assets		<u>(3,780)</u>	<u>3,913</u>	<u>5,883</u>	<u>3,913</u>
Total assets less current liabilities		<u>45,837</u>	<u>15,657</u>	<u>23,870</u>	<u>16,595</u>
Creditors: amounts falling due after more than one year	17	(13,231)	(3,799)	(1,217)	(4,737)
Provisions for liabilities and charges	19	(245)	(696)	(81)	(696)
Net assets		<u>32,361</u>	<u>11,162</u>	<u>22,572</u>	<u>11,162</u>
Capital and reserves					
Called up share capital	20	3,355	578	3,355	578
Share premium account	21	15,508	2,239	15,508	2,239
Capital reserve	21	9,592	665	665	665
Profit and loss account	21	3,906	7,680	3,044	7,680
Equity shareholders' funds	22	<u>32,361</u>	<u>11,162</u>	<u>22,572</u>	<u>11,162</u>

The financial statements were approved by the Board of Directors on 30 July 1996 and were signed on its behalf by:

M D Abrahams

P N Holley

M D Abrahams
P N Holley
 Directors

Group cashflow statement

for the eleven months ended 31 March 1996

	Notes	31 March 1996 £'000	30 April 1995 £'000
Net cash inflow from operating activities	23	2,990	702
Returns on investments and servicing of finance			
Interest received		—	9
Interest paid		(1,029)	(272)
Interest element of finance lease rental payments		(107)	(3)
Dividends paid		(278)	(232)
Net cash outflow from returns on investments and servicing of finance		(1,414)	(498)
Corporation tax paid		(906)	(69)
Investing activities			
Purchase of business (net of cash and cash equivalents)	25	(8,512)	(2,568)
Purchase of tangible fixed assets		(4,274)	(1,282)
Sales of tangible fixed assets		190	89
Net cash outflow from investing activities		(12,596)	(3,761)
Net cash outflow before financing		(11,926)	(3,626)
Financing	24		
Proceeds from issue of shares (net of issue expenses)		13,986	—
New loan		—	2,000
Loan repayments		(5,241)	—
Capital element of finance lease rental payments		(705)	(16)
Net cash inflow from financing		8,040	1,984
Decrease in cash and cash equivalents	25	(3,886)	(1,642)

Notes to the accounts

for the eleven months ended 31 March 1996

1 Accounting policies

Accounting standards

The financial statements have been prepared in accordance with applicable accounting standards.

Accounting basis

The financial statements have been prepared under the historical cost convention.

Consolidation

The consolidated financial statements incorporate the accounts of the Holding Company and all of its subsidiaries. The Holding Company has not presented its own profit and loss account, as permitted by section 230 of the Companies Act 1985. Subsidiaries acquired during the period are consolidated from their effective dates of acquisition.

Goodwill

Goodwill arising on the acquisition of businesses is written off directly against reserves in the year of acquisition. Any excess of the aggregate of the fair value of the separable net assets acquired over the fair value of the consideration given (negative goodwill) is credited directly to capital reserve.

Turnover

Represents the invoiced value of goods sold net of discounts and excluding value added tax.

Depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal annual instalments over their estimated useful economic lives as follows:

Freehold buildings	-	50 years	(1995: 25 years)
Leasehold buildings	-	50 years	
Plant and machinery	-	3 to 15 years	
Motor vehicles	-	3 to 5 years	

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. Grants of a revenue nature are credited to operating profit over the period to which they relate.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost includes all costs of purchase and, where appropriate, direct costs of labour, production and other overheads incurred in bringing the products to their present condition.

Research and development

Expenditure on research and development is written off against profits in the year in which it is incurred.

Deferred taxation

Provision is made, using the liability method, for all tax deferred by timing differences to the extent that there is a reasonable probability that the tax deferred will crystallise in the foreseeable future.

Notes to the accounts (continued)

1 Accounting policies (continued)**Pensions**

The Group operates three pension schemes. For the defined benefit scheme the expected regular cost of pensions is charged to the profit and loss account so as to spread the cost of pensions over the average expected service period of employees in the scheme. Variations from regular cost are calculated with reference to the expected remaining service lives of the employees and are charged or credited to the profit and loss account as appropriate. The pension cost is assessed in accordance with the advice of independent qualified actuaries. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet. The scheme is available to members of the senior management team.

Contributions payable under the defined contribution schemes are charged against profits in the financial year in which they arise. These schemes are available to all full-time employees.

Leases

Where the Company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Investments

Fixed asset investments are stated at cost less provision for any permanent diminution in value. In accordance with the Urgent Issues Task Force Abstract 13 the Company's investment in its own shares and related borrowings have been recognised on the balance sheet and comparative figures re-stated accordingly.

2 Analysis of turnover and operating profit/(loss)

All of the turnover and attributable profit/(loss) arose from the principal activity of the Group. All of the sales were within the United Kingdom and the Republic of Ireland.

	Turnover		Operating profit/(loss) before exceptional charges		Net assets	
	1996	1995	1996	1995	1996	1995
	£'000	£'000	£'000	£'000	£'000	£'000
Frozen Food Retail	43,816	42,502	(272)	1,694	17,171	18,910
Prepared Chilled Food	31,193	—	1,558	—	24,424	—
Frozen Food Catering	2,455	—	299	—	4,219	—
Supplies	3,165	—	247	—	7,818	—
Total	80,629	42,502	1,832	1,694	53,632	18,910
Borrowings					(21,271)	(7,748)
Shareholders' funds					32,361	11,162

The above 1996 figures show 48 weeks of Frozen Food Retail and 18 weeks of Prepared Chilled Food, Frozen Food Catering and Supplies. The Frozen Food Retail business relates to the existing operations of the Group. The other business categories relate to the acquired Cavaghan & Gray businesses.

Notes to the accounts (continued)

3 Operating profit/(loss)

	1996	1995
	£'000	£'000
Operating profit is stated after charging/(crediting):		
Depreciation of tangible fixed assets	2,081	1,726
Total operating lease rentals payable	340	214
Auditors' remuneration - audit services	60	28
- non audit services	30	70
- fees to previous auditors	20	-
Research and development costs - existing operations	264	284
- acquisition	242	-
Profit on sale of tangible fixed assets	(246)	(46)
Government grants	(99)	-

Remuneration to Price Waterhouse as reporting accountants of £160,000, to Price Waterhouse Corporate Finance of £241,000 and to the previous auditors of £109,000 in the period (1995: £39,000) in connection with the acquisition has been dealt with as part of the cost of acquisition.

4 Staff costs

	1996	1995
Average number of employees by activity:		
Manufacturing	1,222	534
Selling	18	19
Administration	73	39
	<u>1,313</u>	<u>592</u>

Total employees in the Group at 31 March 1996 were 2,264.

	1996	1995
	£'000	£'000
Employee costs:		
Wages and salaries	14,233	6,976
Social security costs	1,402	636
Other pension costs	166	116
	<u>15,801</u>	<u>7,728</u>

Notes to the accounts (continued)

5 Directors Directors' emoluments

	1996	1995
	£'000	£'000
Fees	31	30
Salaries and benefits	426	404
Performance related payments	—	72
Compensation for loss of employment	245	—
	<u>702</u>	<u>506</u>
Pension contributions included above	<u>56</u>	<u>42</u>

The following table shows an analysis of emoluments:

	Salary/ fees £'000	Benefits in kind £'000	Compensation for loss of employment £'000	Total excluding pension contributions 1996 £'000	Total excluding pension contributions 1995 £'000	Pension contributions 1996 £'000	Pension contributions 1995 £'000	Total 1996 £'000	Total 1995 £'000	Proforma Annual Emoluments £'000
Executive Directors:										
H R Sims	63	2	—	65	10	8	—	73	10	165
P N Holley	68	7	—	75	73	14	9	89	82	75
J P Murphy	27	1	—	28	—	4	—	32	—	81
D P Miller	24	1	—	25	—	3	—	28	—	70
C R Ivory	60	3	245	308	107	12	15	320	122	—
E Honeywell	39	3	—	42	74	8	10	50	84	—
R S E Tucknott	34	3	—	37	140	7	8	44	148	—
Non-executive Directors:										
M D Abrahams										
(Chairman)	47	—	—	47	45	—	—	47	45	62
T H P Brown	14	—	—	14	15	—	—	14	15	16
J A Nightingale	5	—	—	5	—	—	—	5	—	16
Total	<u>381</u>	<u>20</u>	<u>245</u>	<u>646</u>	<u>464</u>	<u>56</u>	<u>42</u>	<u>702</u>	<u>506</u>	<u>485</u>

Proforma annual emoluments comprise basic salaries and fees as at 31 March 1996.

No performance related bonuses were paid in the period.

Notes to the accounts (continued)

5 Directors (continued)
Directors' emoluments (continued)

The numbers of Directors whose emoluments, excluding pension contributions and compensation for loss of office, fell in each £5,000 bracket were as follows:

	1996	1995
	£'000	£'000
£0 - £5,000	—	1
£5,001 - £10,000	1	—
£10,001 - £15,000	1	2
£20,001 - £25,000	1	—
£25,001 - £30,000	1	—
£35,001 - £40,000	1	—
£40,001 - £45,000	1	1
£45,001 - £50,000	1	—
£60,001 - £65,000	1	—
£65,000 - £70,000	1	—
£70,001 - £75,000	—	2
£75,001 - £80,000	1	—
£105,001 - £110,000	—	1
£135,001 - £140,000	—	1

Directors' interests in shares

The Directors in office at the end of the period had beneficial interests in the 5p ordinary shares of the Company as follows:

	31 March 1996	30 April 1995
M D Abrahams	50,000	35,000
P N Holley	199,611	199,611
J P Murphy	211,500	—
T H P Brown	21,390	21,390
H R Sims	915,500	5,000
D P Miller	2,780	—

M D Abrahams, T H P Brown and J A Nightingale who are Directors of Dalepak Trustee and Nominee Company Limited, may be deemed to have an interest in the 230,798 ordinary shares held by that Company in trust for the Dalepak Employee Benefits Trust.

The market price of the Company's ordinary shares at 31 March 1996 was £0.93 (30 April 1995: £1.04). The range in market price during the period was £0.93 to £1.44.

Notes to the accounts (continued)

5 Directors (continued)
Directors' interests in shares (continued)

In addition, the following Directors in office at the period end have been granted options under the Company's share option scheme as follows:

Directors	Date granted	At 31 March 1996	Granted	At 30 April 1995	Exercise price	Date from which exercisable	Expiry date
H R Sims	29 February 1996	306,122	306,122	—	107.8p	1 March 1999	28 February 2003
H R.Sims	29 February 1996	306,122	306,122	—	107.8p	29 February 2000	28 February 2003
		<u>612,244</u>	<u>612,244</u>	<u>—</u>			

Options by exercise price:

	Date granted	At 31 March 1996
107.8p	29 February 1996	612,244

There have been no Directors' share transactions since the period end.

The performance target for exercising the share options is set out one page 20 of Report of the Remuneration Committee.

6 Exceptional items

Exceptional items comprise:

	1996	1995
	£'000	£'000
Provision for exceptional beef stock losses, stock disposal costs and related expenses arising from the announcement of BSE concerns	1,000	—
Reorganisation, restructuring and integration costs associated with the acquisition of businesses	1,578	721
	<u>2,578</u>	<u>721</u>

The reorganisation and integration costs associated with the merger with Cavaghan & Gray Limited of £1,578,000 comprise redundancy and employee termination costs of £1,194,000, provisions for impairment of property carrying values of £250,000 and other costs of £134,000.

Notes to the accounts (continued)

7 Net interest

	1996	1995
	£'000	£'000
Interest on finance leases and hire purchase contracts	107	3
Interest on bank loans and overdrafts whenever repayable and other loans wholly repayable within five years	529	347
Interest on other loans repayable after five years	208	-
	<hr/> 844	<hr/> 350
Penalty on early repayment of loan	150	-
Interest payable and similar charges	994	350
Less: Interest receivable	-	(9)
Net interest payment	<hr/> 994	<hr/> 341

8 Taxation on (loss)/profit on ordinary activities

	1996	1995
	£'000	£'000
UK corporation tax at 33% on the (loss)/profit for the period (1995: 33%)	(35)	189
Advance corporation tax written off	200	-
Deferred tax	(671)	20
	<hr/> (506)	<hr/> 209

The taxation charge includes relief of £800,000 in respect of exceptional items.

9 Loss for the financial period

The loss attributable to the Holding Company which has been dealt with in its own accounts is £2,096,000 (1995: profit £423,000).

10 Dividends

	1996	1995
	£'000	£'000
First interim dividend proposed (0.5p per share, 1995: 1p per share)	58	116
Second interim dividend proposed (1p per share)	671	-
Final dividend proposed (2.7p per share, 1995: 1.2p per share)	1,811	138
	<hr/> 2,540	<hr/> 254

Notes to the accounts (continued)

11 Earnings per share

	1996	1995
	pence	pence
Basic (loss)/earnings per share	(3.89)	3.66
Exceptional costs	8.60	6.23
Related tax relief	(2.67)	(2.06)
Adjusted earnings per share	2.04	7.83

The calculation of basic earnings per ordinary share is based on a loss after tax of £1,234,000 (1995: profit £423,000) and the weighted average number of shares in issue of 31,758,548 shares of 5p (1995: 11,568,160).

Adjusted earnings per share is calculated on the same basis as above excluding exceptional charges net of tax in order to show the underlying trading performance of the ongoing business.

The dilution which would result from the exercise of options, granted under the employee share option scheme has no material effect on earnings per share.

12 Tangible fixed assets

	Freehold land and buildings	Long term leasehold property	Plant and machinery	Motor vehicles	Under construction	Total
Group	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 May 1995	7,190	—	11,381	760	885	20,216
Additions	293	—	931	165	3,441	4,830
Disposals	(62)	—	(1,556)	(145)	—	(1,763)
Acquisition of subsidiary	21,170	7,778	33,827	1,623	—	64,398
Transfers	30	—	1,283	—	(1,313)	—
At 31 March 1996	28,621	7,778	45,866	2,403	3,013	87,681
Depreciation						
At 1 May 1995	1,424	—	7,025	384	—	8,833
Charge for the financial period	317	45	1,483	236	—	2,081
Acquisition of subsidiary	4,849	1,005	22,278	1,136	—	29,268
Disposals	(63)	—	(1,556)	(130)	—	(1,749)
At 31 March 1996	6,527	1,050	29,230	1,626	—	38,433
Net book amount						
At 31 March 1996	22,094	6,728	16,636	777	3,013	49,248
At 30 April 1995	5,766	—	4,356	376	885	11,383

Freehold land and buildings includes freehold land which has not been depreciated with a cost of £600,000 (1995: £600,000).

Included in the total net book value is £8,230,000 (1995: £62,000) in respect of assets held under finance leases. Depreciation for the period on these assets was £354,000 (1995: £4,000).

During the period the Directors reassessed the economic lives of freehold buildings and plant and machinery owned by the Company and aligned these lives with those of Cavaghan and Gray Limited. The impact of these changes on the depreciation charge for the period was a reduction of £250,000.

Notes to the accounts (continued)

12 Tangible fixed assets (continued)

	Freehold land and buildings	Plant and machinery	Motor vehicles	Under construction	Total
Company	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 May 1995	7,190	11,381	760	885	20,216
Additions	—	26	18	3,255	3,299
Disposals	(62)	(1,556)	(79)	—	(1,697)
Transfers	30	1,283	—	(1,313)	—
At 31 March 1996	7,158	11,134	699	2,827	21,818
Depreciation					
At 1 May 1995	1,424	7,025	384	—	8,833
Charge for the financial period	210	947	171	—	1,328
Disposals	(63)	(1,556)	(64)	—	(1,683)
At 31 March 1996	1,571	6,416	491	—	8,478
Net book amount					
At 31 March 1996	5,587	4,718	208	2,827	13,340
At 30 April 1995	5,766	4,356	376	885	11,383

Freehold land and buildings includes freehold land which has not been depreciated with a cost of £600,000 (1995: £600,000).

Included in the total net book value is £525,000 (1995: £62,000) in respect of assets held under finance leases. Depreciation for the period on these assets was £20,000 (1995: £4,000).

13 Fixed asset investments

	Group		Company	
	1996	1995 Re-stated	1996	1995 Re-stated
	£'000	£'000	£'000	£'000
Shares in group undertakings				
Cost less amounts written off brought forward	—	—	938	938
Additions	—	—	3,348	—
Cost less amounts written off carried forward	—	—	4,286	938
Investment in own shares	361	361	361	361
Other investments	8	—	—	—
	369	361	4,647	1,299

Investment in own shares represents the Company's investment in Cavaghan & Gray Group PLC shares through an Employee Share Ownership Plan ('ESOP'). In accordance with the Urgent Issues Task Force Abstract 13, the ESOP shares and related borrowings have been recognised on the balance sheet and comparative figures have been re-stated accordingly. The ESOP shares represent 230,798 ordinary shares at an average purchase price of £1.56.

Notes to the accounts (continued)

13 Fixed asset investments (continued)

At 31 March 1996 the Company wholly owned the ordinary share capital of the following subsidiaries:

	Principal activity
Cavaghan & Gray Limited	Food production
Dalepak Foods PLC	Agency company
Calthwaite Dairy Products Limited	Dairy Produce
Cavaghan & Gray (Finance) Limited	Finance
Alex Ross (Fish Merchants) Limited	Non-trading
Emile Tissot Foods Limited	Non-trading
Cavaghan & Gray Foods Limited	Non-trading
Fawcetts Frozen Foods Limited	Non-trading
The Pie Company Limited	Non-trading
Arnold Worsley & Sons (Barnsley) Limited	Non-trading
Hortonwood Bakeries Limited	Non-trading
Dalepak Trustee and Nominee Company Limited	Trustee of Dalepak Employee Benefits Trust

All the companies are wholly owned and operating within the United Kingdom.

The accounting reference date of Cavaghan & Gray (Finance) Limited is 28 February for administrative purposes.

All other subsidiaries prepare accounts to 31 March.

14 Stocks

	Group		Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Raw materials and consumables	7,628	5,348	3,723	5,348
Finished goods and goods for resale	5,854	3,475	4,387	3,475
	<u>13,482</u>	<u>8,823</u>	<u>8,110</u>	<u>8,823</u>

15 Debtors

	Group		Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Trade debtors	12,438	7,020	5,886	7,020
Amounts owed by Group undertakings	—	—	5,500	—
Other debtors	1,261	515	489	515
Prepayments and accrued income	734	82	85	82
Taxation recoverable	768	—	884	—
	<u>15,201</u>	<u>7,617</u>	<u>12,844</u>	<u>7,617</u>

Notes to the accounts (continued)

16 Creditors: amounts falling due within one year

	Group		Company	
	1996	1995 Re-stated	1996	1995 Re-stated
	£'000	£'000	£'000	£'000
Bank loans and overdrafts (Note 18)	6,453	3,938	3,201	3,938
Obligations under finance leases and hire purchase contracts	1,587	11	137	11
Trade creditors	15,534	5,967	6,152	5,967
Other creditors	338	—	—	—
Advance corporation tax payable	672	291	635	291
Other tax and social security	998	375	235	375
Accruals	4,199	1,809	2,171	1,809
Proposed dividend	2,688	138	2,540	138
	<u>32,469</u>	<u>12,529</u>	<u>15,071</u>	<u>12,529</u>

17 Creditors: amounts falling due after more than one year

	Group		Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Bank loans (Note 18)	9,870	3,750	—	3,750
Obligations under finance leases and hire purchase contracts	3,361	49	229	49
Amounts owed to subsidiary undertakings	—	—	988	938
	<u>13,231</u>	<u>3,799</u>	<u>1,217</u>	<u>4,737</u>
Repayable:				
within one to two years	2,859	513	137	513
within two to five years	7,927	2,786	1,080	3,724
after five years	2,445	500	—	500
	<u>13,231</u>	<u>3,799</u>	<u>1,217</u>	<u>4,737</u>

Notes to the accounts (continued)

18 Bank loans and overdrafts

	Group		Company	
	1996	1995	1996	1995
		Re-stated		Re-stated
	£'000	£'000	£'000	£'000
Overdrafts	6,078	2,188	3,201	2,188
Revolving credit facility	—	1,500	—	1,500
Medium term loans	10,245	4,000	—	4,000
	<u>16,323</u>	<u>7,688</u>	<u>3,201</u>	<u>7,688</u>
Repayable:				
within one year or on demand	6,453	3,938	3,201	3,938
between one and two years	1,500	500	—	500
between two and five years	5,925	2,750	—	2,750
after five years	2,445	500	—	500
	<u>16,323</u>	<u>7,688</u>	<u>3,201</u>	<u>7,688</u>

The Group and Company borrowings are secured by fixed and floating charges over the Group's assets.

The overdraft bears interest at 1% (1995: 2%) above the interbank rate. The medium term loans of £6 million and £4.25 million bear interest at 1% and 1.75%, respectively, above the interbank rate.

The £4.25 million medium term loan is repayable by six annual instalments of £600,000 and a final instalment of £645,000, repayments commencing in September 1998.

The Group's revolving credit facility of £1.5 million and medium term loans of £4 million, at 30 April 1995, were repaid during the period. The revolving credit facility bore interest at 2% above the interbank rate. Interest rates on the medium term loans were as follows:

£1 million medium term loan at 12.1%
 £1 million medium term loan at 9.6%
 £2 million medium term loan at 2% above interbank rate

19 Provision for liabilities and charges

	Group		Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Deferred taxation				
At 30 April	696	681	696	681
New subsidiaries	404	—	—	—
Transfer to profit and loss account	(671)	21	(525)	21
Recoverable advance corporation tax	(184)	(6)	(90)	(6)
At 31 March	<u>245</u>	<u>696</u>	<u>81</u>	<u>696</u>

Further advance corporation tax recoverable of £249,000 is included in taxation recoverable within debtors.

Notes to the accounts (continued)

19 Provision for liabilities and charges (continued)

	Group		Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Represented by:				
Accelerated capital allowance	1,063	898	898	898
Corporation tax losses	(223)	—	(133)	—
Assets held under finance lease	556	—	—	—
Other timing differences	(775)	(167)	(560)	(167)
Advance corporation tax	(376)	(35)	(124)	(35)
Total deferred taxation	245	696	81	696
The potential liability for deferred taxation not provided is:				
Accelerated capital allowances	3,567	—	187	—
Other timing differences	(87)	—	—	—
	3,480	—	187	—

20 Equity share capital

	1996	1995
	£'000	£'000
Authorised:		
90,000,000 ordinary shares of 5p each (1995: 14,000,000)	4,500	700
Allotted, called up and fully paid:		
67,091,603 ordinary shares of 5p each (1995: 11,568,160)	3,355	578

On 30 November 1995 41,179,050 ordinary shares were issued at 105p per share. The proceeds were applied in consideration for the purchase of equity shares in Cavaghan and Gray Limited.

A further 14,344,393 ordinary shares were issued on the above date at 105p per share to finance the continuing operations of the Enlarged Group.

The Group has taken advantage of S131 Companies Act 1985 and has not recognised the share premium on the shares issued as part consideration for the purchase of Cavaghan & Gray Limited.

Under the Company's share option schemes adopted in 1985 and 1995 there were options outstanding at 31 March 1996 over 950,162 ordinary shares at the following prices:

Date granted	Number of shares	Subscription price	Earliest date normally exercisable
1987	66,000	145.50p	1990
1989	249,918	94.00p	1992
1991	22,000	140.66p	1994
1996	306,122	107.80p	1999
1996	306,122	107.80p	2000

Notes to the accounts (continued)

21 Reserves

Group	Share premium £'000	Capital £'000	Profit and loss £'000	Total £'000
At 30 April 1995	2,239	665	7,680	10,584
Premium on issue of share capital (net of issue costs)	13,269	41,180	—	54,449
Goodwill eliminated	—	(32,253)	—	(32,253)
Loss for the financial period	—	—	(3,774)	(3,774)
At 31 March 1996	15,508	9,592	3,906	29,006
Company				
At 30 April 1995	2,239	665	7,680	10,584
Premium on issue of share capital	13,269	—	—	13,269
Loss for the financial period	—	—	(4,636)	(4,636)
At 31 March 1996	15,508	665	3,044	19,217

The cumulative amount of goodwill written off resulting from acquisitions was £33,374,000 (1995: £1,121,000).

22 Reconciliation of shareholders' funds

	Group		Company	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
(Loss)/profit for the financial period	(1,234)	423	(2,096)	423
Dividends	(2,540)	(254)	(2,540)	(254)
Retained (loss)/profit for the financial period	(3,774)	169	(4,636)	169
Negative goodwill credited to a capital reserve	—	665	—	665
Goodwill eliminated	(32,253)	—	—	—
New share capital issued	57,226	—	16,046	—
Net addition to shareholders' funds	21,199	834	11,410	834
Opening shareholders' funds	11,162	10,328	11,162	10,328
Closing shareholders' funds	32,361	11,162	22,572	11,162

23 Reconciliation of operating (loss)/profit to net cash inflow from operating activities

	1996 £'000	1995 £'000
Operating (loss)/profit	(746)	973
Depreciation of tangible fixed assets	2,081	1,726
Profit on sale of tangible fixed assets	(246)	(46)
Decrease/(increase) in stocks	2,122	(2,321)
Decrease/(increase) in debtors	2,301	(2,563)
(Decrease)/increase in creditors	(2,522)	2,933
Net cash inflow from operating activities	2,990	702

Notes to the accounts (continued)

24 Analysis of changes in financing

	Share capital and premium	Loans and finance lease obligations
	£'000	£'000
At 30 April 1994	2,817	3,510
New loans	—	2,000
Capital element of finance lease rental payments	—	(16)
Inception of new finance leases	—	66
At 30 April 1995	2,817	5,560
Proceeds from issuing new shares (net of issue expenses)	13,986	—
Shares issued for non cash consideration	2,060	—
Capital value of finance lease rental payments	—	(705)
Inception of new finance leases	—	486
Loans and finance lease obligations of subsidiary undertaking acquired during the year	—	15,093
Repayment of loans	—	(5,241)
At 31 March 1996	18,863	15,193

25 Analysis of changes in cash and cash equivalents

	Cash	Bank overdrafts	Total
	£'000	£'000	£'000
At 30 April 1994 (re-stated - note 13)	2	(546)	(544)
Decrease in cash and cash equivalents	—	(1,642)	(1,642)
At 30 April 1995 (re-stated - note 13)	2	(2,188)	(2,186)
Increase/(Decrease) in cash and cash equivalents	4	(3,890)	(3,886)
At 31 March 1996	6	(6,078)	(6,072)

Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiary undertakings.

	£'000
Cash consideration	40
Cash in hand acquired	(6)
Bank overdraft of acquired business	5,428
Transaction costs	1,200
Redemption of preference shares	1,850
Net outflow of cash and cash equivalents in respect of purchases of subsidiaries	8,512

Cavaghan & Gray Limited contributed £1,771,000 to the Group's net operating cashflows, paid £462,000 in respect of net returns on investments and servicing of finance and paid £1,419,000 in respect of investing activities.

Notes to the accounts (continued)

26 Capital commitments

	1996	1995
	£'000	£'000
Contracted but not provided for	612	7

27 Leases

	1996	1995
	£'000	£'000
Annual commitments for hire of plant and machinery under operating leases which expire:		
- in the second to fifth years inclusive	164	34
- after five years	22	-
	186	34

28 Pensions

Pensions are funded by contributions made by the Group and its employees to defined contribution schemes which are financially independent. The contributions owed to the funds at 31 March 1996 are included in creditors due within one year and amount to £50,537 (1995: £11,716).

Cavaghan & Gray Group PLC also operates a defined benefit scheme with benefits based on final pensionable pay.

The scheme covers the senior management team of Cavaghan & Gray Limited. The assets of the Scheme are held separately from those of the Company and are invested with investment funds.

Contributions to the Scheme are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives with the Company. Contributions are determined by an independent qualified actuary every three years using the projected unit method. The most recent actuarial assessment of the financial position of the scheme was made on 1 October 1995. The most significant actuarial assumptions were that the real rate of return on investments would be 9.0% per annum, real salary increases would average 7.0% per annum and growth in the UK equity dividends and post-retirement pension increases will match price inflation. The value of the fund at the last valuation amounted to £8,458,558 and represented 108.8% of the prospective liabilities at that date.

The Group pension charge for the period in respect of the defined benefit scheme was £14,594. The amount of contributions paid in advance at 31 March 1996, ie the excess of the accumulated amount funded over the accumulated pension cost, was £319,000 and is included in prepayments.

29 Contingent liabilities

Cavaghan & Gray Group PLC guarantees the loans and overdrafts of its subsidiary undertakings. At 31 March 1996 these loans and overdrafts amounted to £13,122,000.

Notes to the accounts (continued)

30 Acquisitions of Group undertakings

On 30 November 1995 the Group completed the acquisition of Cavaghan & Gray Limited. The impact of the acquisition on the consolidated balance sheet is set out below:

	Balance sheet at acquisition	Fair value adjustments			Fair value to Group
		Revaluation	Alignment of accounting policies	Other	
	£'000	£'000	£'000	£'000	£'000
Tangible fixed assets	39,858	(4,728)	—	—	35,130
Investments	8	—	—	—	8
Stocks	7,593	—	(753)	(59)	6,781
Debtors	9,238	(50)	(50)	—	9,138
Cash	6	—	—	—	6
Overdraft	(5,428)	—	—	—	(5,428)
Taxation	(653)	—	—	—	(653)
Other creditors	(15,272)	—	(200)	(100)	(15,572)
Loans and finance leases	(15,093)	—	(242)	—	(15,335)
Net assets acquired	20,257	(4,778)	(1,245)	(159)	14,075
Consideration (including costs)					46,328
Goodwill arising on current year acquisition					32,253
Analysis of consideration for Cavaghan & Gray Limited					
Acquisition price – 4,179,050 shares issued valued at £1.05, cash £40,000					43,278
Redemption of Cavaghan & Gray Limited preference shares					1,850
Acquisition costs					1,200
Total consideration					46,328

The fair value of the net assets acquired are based on provisional assessments, pending final determination of certain assets and liabilities. The adjustments relate principally to a revaluation of properties and the alignment of accounting policies in relation to overheads allocated to stock and the treatment of finance leases.

The consolidated results of Cavaghan & Gray Limited for the period prior to acquisition are set out below:

	2 April 1995 – 30 November 1995	Year ended 1 April 1995
	£'000	£'000
Turnover	59,078	91,045
Operating profit before exceptional items	1,861	5,756
Exceptional items	—	598
Interest payable	(1,076)	(1,871)
Profit before taxation	785	4,483
Taxation	(228)	(1,416)
Profit after taxation	557	3,067

There were no recognised gains or losses other than the profits in each period.

Unaudited proforma operating profit statement

for the year ended 31 March 1996

1996	Dalepak Foods PLC £'000	Cavaghan & Gray Limited £'000	Total £'000
Turnover	47,725	95,979	143,704
Operating Profit/(Loss) before exceptional items	(164)	3,965	3,801
1995	Dalepak Foods PLC £'000	Cavaghan & Gray Limited £'000	Total £'000
Turnover	42,502	91,045	133,547
Operating Profit/(Loss) before exceptional items	1,694	5,756	7,450

1996 Proforma results comprise:

Dalepak Foods PLC

- Audited results for the 11 months ended 31 March 1996
- Unaudited management accounts result for the month ended 30 April 1995

Cavaghan & Gray Limited

- Audited results for the year ended 31 March 1996 for Cavaghan & Gray Limited and its subsidiaries.

1995 proforma results comprise the audited results for Dalepak Foods PLC for the year ended 30 April 1995 and the audited results for Cavaghan & Gray Limited and its subsidiaries for the 52 weeks ended 1 April 1995, as extracted from the prospectus issued in November 1995.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Cavaghan & Gray Group PLC will be held at North Lakes Hotel, Ullswater Road, Penrith, Cumbria on 27 September 1996, at 12 noon for the following purposes:

Resolution 1

To receive and adopt the Financial Statements and the Reports of the Directors and Auditors for the period ended 31 March 1996.

Resolution 2

To declare a final dividend for the period ended 31 March 1996.

Resolution 3

To re-elect JP Murphy as a Director who, retiring in accordance with the Articles of Association, offers himself for re-election.

Resolution 4

To re-elect DP Miller as a Director who, retiring in accordance with the Articles of Association, offers himself for re-election.

Resolution 5

To re-elect THP Brown as a Director who, retiring by rotation, offers himself for re-election.

Resolution 6

To re-appoint Price Waterhouse as auditors and to authorise the Directors to agree their remuneration.

Resolution 7

To consider and, if thought fit, pass the following Resolution as an Ordinary Resolution:

That the authority and powers set out in Article 17 of the Company's Articles of Association be given to the Directors for the period ending on the earlier of (a) the conclusion of the next Annual General Meeting of the Company or, (b) 27 December 1997 and, for such period, the amount specified for the purpose of Article 17.1 shall be £1,118,190.

Resolution 8

To consider and, if thought fit, pass the following Resolution as a Special Resolution:

That the Authority and power set out in the Article 18 of the Company's Articles of Association be given to the Directors for the period ending on the earlier of (a) the conclusion of the next Annual General Meeting of the Company or, (b) 27 December 1997 and, for such period, the amount specified for the purpose of Article 18.2 shall be £167,729.

Resolution 9

To consider and, if thought fit, pass the following Resolution as an Ordinary Resolution:

That the Annual Bonus Plan and the policies of the Remuneration Committee outlined in the letter from the Chairman of that Committee to shareholders dated 30 July 1996 be approved.

Notes

- 1 A member entitled to attend and vote is entitled to appoint a proxy (who need not be a member of the Company) to attend and, on a poll, to vote instead of him. A form of proxy is enclosed.
- 2 The following documents will be available for inspection at the Company's registered office during usual business hours on any weekday (Saturdays and public holidays excluded) from the date of this Notice until the date of the Annual General Meeting and at the place of the Meeting from 11.45 a.m. until the conclusion of the Meeting:
 - (i) The register of Directors' share interests kept pursuant to section 325 of the Companies Act 1985;
 - (ii) Copies of all contracts of service under which Directors are employed by the Company. (No Director has a contract of service with the Company's subsidiaries).
- 3 The dividend, if declared, will be paid on 4 October 1996 to shareholders on the register on 4 September 1995 which will include transfers accepted for registration on that day.

Notice of Annual General Meeting (continued)

4 Share capital

The Companies Act 1985 provides that Directors shall only allot unissued shares with the authority of shareholders in general meeting. The Directors therefore seek authority (Resolution 7) to allot shares up to an aggregate nominal value of £1,118,190. This is equivalent to 22,363,800 ordinary shares of 5p each which represent approximately 33% of the Company's present issued ordinary share capital. The authority will lapse no later than 27 December 1997. The Directors have no present intention of exercising the authority.

The Companies Act 1985 also provides that any allotment of new shares for cash must be made *pro rata* to individual shareholders' holdings. The Directors consider it desirable to disapply those provisions in certain circumstances and authority is therefore sought (Resolution 8) to enable the Directors to allot shares for cash:

- (a) by way of rights issue to all shareholders; and
- (b) otherwise in respect of shares up to an aggregate nominal value of £167,729. This is equivalent to 3,354,580 ordinary shares of 5p each which represents approximately 5% of the Company's present issued ordinary share capital.

This authority will lapse no later than 27 December 1997.

The Directors recommend that shareholders should vote in favour of Resolutions 7 and 8 which, they believe, are in the best interest of the shareholders as a whole.

Brunel House
Brunel Way
Carlisle
Cumbria
CA1 3NQ

By Order of the Board
P N Holley
Secretary
30 July 1996