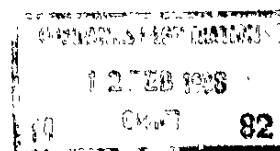


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James Ward & Co.

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SMEDLEY'S LIMITED

REPORT OF THE DIRECTORS
for the year ended 31 December 1986

The directors present their report and audited accounts of the company for the year ended 31 December 1986.

Principal activities and business review

The principal activities of the group are the canning, freezing and processing of food products.

The directors expect the group to continue to trade profitably in the current year.

Results and dividends

Details of the results for the year are shown in the profit and loss account and the notes relating to it.

The directors do not recommend the payment of any dividend for the year.

Directors

The directors who served during the year are Mr H Solomon and Mr D B Thompson who are also directors of the ultimate holding company Hillsdown Holdings plc, and Mr B T Hunt who is a director of the immediate holding company Hillsdown Ltd. Particulars of their shareholdings and family interests as defined by Companies Act 1985 are shown in the accounts of those companies. None of the directors had any beneficial interest in the company's shares.

Tangible fixed assets

Details of movements in fixed assets are shown in note 10 to the accounts.

Political and charitable contributions

No political or charitable contributions were made during the year.

Disabled persons

The company and its subsidiaries give full and fair consideration to employment applications from disabled persons, having regard to their particular aptitudes and abilities.

SMEDLEY'S LIMITED

REPORT OF THE DIRECTORS (continued)
for the year ended 31 December 1986

Disabled persons (continued)

If a person becomes disabled whilst in employment, the company takes all reasonable steps to ensure that his or her employment continues.

So far as possible, the training, career development and promotion of a disabled person will be the same as that of a person who has no disability.

Close company

The company is not a close company within the meaning of the Income and Corporation Taxes Act 1970.

Auditors

The auditors, Messrs Jayson Arnold & Fowell, have signified their willingness to continue in office and a resolution is to be proposed at the forthcoming Annual General Meeting that they be re-appointed as auditors for the ensuing year.

By order of the board

B T Hunt

Secretary

23 March 1987

Jayson, Arnold & Fowell

SMEDLEY'S LIMITED

AUDITORS' REPORT

To the members of Smedley's Limited

We have audited the financial statements on pages 4 to 16 in accordance with approved Auditing Standards.

In our opinion, the financial statements, which have been prepared in accordance with the accounting policies set out on page 9, give a true and fair view of the state of financial affairs of the company and the group at 31 December 1986 and of the profit and source and application of funds of the group for the year then ended and comply with the Companies Act 1985.

JAYSON ARNOLD & FOWELL
CHARTERED ACCOUNTANTS

23 March 1987

SMEDLEY'S LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31 December 1986

	Note	£000's	£000's	£000's	1985 £000's
Turnover	2		48,074		43,695
Cost of sales			(30,510)		(27,646)
Gross profit			17,564		16,049
Administration expenses			(13,964)		(12,387)
Operating profit			3,600		3,662
Interest payable	4	(1,144)		(1,157)	
Interest receivable	5	-		14	
			(1,144)		(1,143)
Profit on ordinary activities before tax	6		2,456		2,519
Taxation	7		-		-
Profit on ordinary activities after tax	8		2,456		2,519
Extraordinary items	9		344		97
Profit after tax and extraordinary items	18		2,800		2,616

By: Mr. Arnold & Poyell

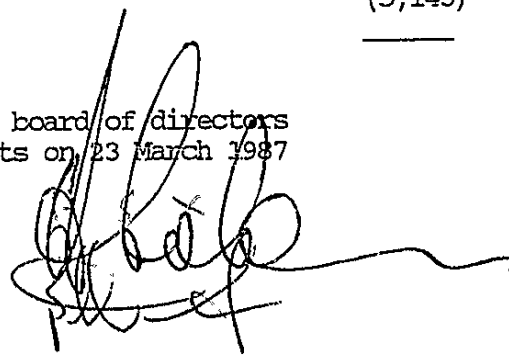
SMEDLEY'S LIMITED

CONSOLIDATED BALANCE SHEET
as at 31 December 1986

	Note	£000's	£000's	£000's	1985 £000's
Fixed assets					
Tangible assets	10		6,181		3,422
Current assets					
Stock	12	13,529		12,070	
Debtors	13	4,280		5,204	
		<u>17,809</u>		<u>17,274</u>	
Current liabilities					
Creditors due within one year	14	22,135		21,641	
		<u></u>		<u></u>	
Net current liabilities			(4,326)		(4,367)
			<u></u>		<u></u>
Total assets less current liabilities			1,855		(945)
Creditors due after more than one year	15		(7,000)		(7,000)
			<u></u>		<u></u>
Net liabilities			(5,145)		(7,945)
			<u></u>		<u></u>
Representing:					
Capital and reserves					
Called up share capital	17		5,159		5,159
Premium on loan stock			3,500		3,500
Profit and loss account	18		(13,804)		(16,604)
			<u>(5,145)</u>		<u>(7,945)</u>

Signed on behalf of the board of directors
who approved the accounts on 23 March 1987

H Solomon)
) Directors
B T Hunt)



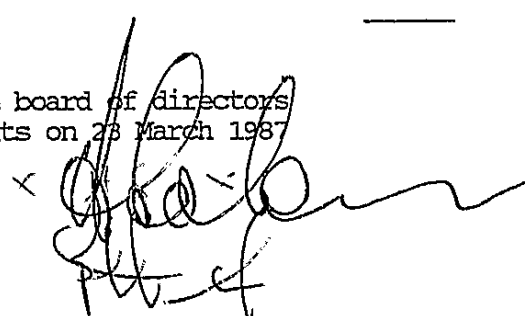
SMEDLEY'S LIMITED

BALANCE SHEET
as at 31 December 1986

	Note	£000's	£000's	£000's	1985 £000's
Fixed assets					
Tangible assets	10		9		13
Current assets					
Debtors	13	31,887		30,773	
Current liabilities					
Creditors due within one year	14	29,644		31,334	
Net current assets/(liabilities)			2,243		(561)
Total assets less current liabilities			2,252		(548)
Creditors due after more than one year	15		(7,000)		(7,000)
Net (liabilities)			(4,748)		(7,548)
Representing:					
Capital and reserves					
Called up share capital	17		5,159		5,159
Premium on loan stock			3,500		3,500
Profit and loss account	18		(13,407)		(16,207)
			(4,748)		(7,548)

Signed on behalf of the board of directors
who approved the accounts on 23 March 1987

H Solomon)
) Directors
B T Hunt)



SMEDLEY'S LIMITED

SOURCE AND APPLICATION OF GROUP FUNDS
for the year ended 31 December 1986

	Note	£000's	£000's	£000's	1985 £000's
Source of funds					
Generated from operations	1		2,942		2,963
Extraordinary item			263		263
Decrease in working capital	2		1,454		337
Proceeds from sale of fixed assets			147		703
Decrease in amount due to fellow subsidiaries			-		39
			<hr/>		<hr/>
Total sources			4,806		4,305
Application of funds				464	
Purchase of fixed assets		3,311			
Increase/decrease in amounts due by/to:					
fellow subsidiaries		41		4,157	
holding company		2,216		-	
		<hr/>		<hr/>	
Total applications			5,568		4,621
			<hr/>		<hr/>
			(762)		(316)
			<hr/>		<hr/>
Representing:					
Movement in liquid funds					
(Increase)/decrease in bank overdrafts			(762)		(316)
			<hr/>		<hr/>

Layton, Mould & Pearch

SMEDLEY'S LIMITED

SOURCE AND APPLICATION OF GROUP FUNDS (continued)
for the year ended 31 December 1986

NOTES

	1986 £000's	1985 £000's
1 Total generated from operations:		
Profit for the year	2,456	2,519
Depreciation	486	444
	<hr/>	<hr/>
	2,942	2,963
	<hr/>	<hr/>
2 Decrease in working capital:		
(Increase) in stocks	(1,459)	(1,629)
Decrease in debtors	957	882
Increase in creditors	1,956	1,084
	<hr/>	<hr/>
	1,454	337
	<hr/>	<hr/>

by Mr. Arnold & Fossell

SMEDLEY'S LIMITED

NOTES TO THE ACCOUNTS
for the year ended 31 December 1986

1 Accounting policies

These accounts have been prepared under the historical cost convention as modified by the revaluation of certain tangible fixed assets, and on a going concern basis, in view of the continuing support of the holding company.

Basis of consolidation

The consolidated accounts comprise the accounts of the company and its subsidiary companies at 31 December 1986.

Turnover

Turnover is the value of sales, excluding Value Added Tax, of goods supplied and services rendered.

Stocks

Stocks have been valued at the lower of cost and net realisable value, due allowance is being made for obsolete and slow moving stocks. Cost is actual invoice price together with freight and duty where appropriate. Canned and processed foods are valued at manufacturing cost which includes an appropriate proportion of manufacturing overheads.

Depreciation

Freehold land is not depreciated. Freehold buildings are depreciated over their estimated useful lives at a rate sufficient to reduce them to their estimated residual value. Where properties are revalued, the depreciation thereafter provided is based on the revalued depreciable amounts.

Plant, equipment and vehicles are depreciated over their estimated useful lives at rates which are sufficient to reduce them to their estimated residual value.

Rates of depreciation in use by the group write off:

Freehold buildings in 50 years

Plant, machinery, fixtures and fittings in 5 to 10 years

Motor vehicles in 4 years

Deferred tax

Provision is not made for deferred tax where liability is not expected to arise in the foreseeable future.

Extraordinary items

Those items which derive from events or transactions outside the ordinary activities of the business and which are both material and expected not to recur frequently or regularly are treated as extraordinary. Trading expenditure incurred during the closure of premises is included in extraordinary items to the extent that it represents the disposal of stocks, the completion of existing contracts, and the care and maintenance of closed premises awaiting disposal.

SMEDLEY'S LIMITED

NOTES TO THE ACCOUNTS
for the year ended 31 December 1986

2 Turnover

An analysis of turnover by activity and by geographical market is given below:

	1986 £000's	1985 £000's
By activity		
Canned products	36,476	34,394
Frozen products	7,861	6,163
Chilled products	3,737	3,138
	<hr/>	<hr/>
	48,074	43,695
	<hr/>	<hr/>
By geographical market:		
United Kingdom	46,048	41,784
Europe	1,267	1,065
Other countries	759	846
	<hr/>	<hr/>
	48,074	43,695
	<hr/>	<hr/>

3 Staff costs and numbers

	1986 £000's	1985 £000's
Wages and salaries	5,758	4,938
Social security costs	538	483
Other pension costs	34	32
	<hr/>	<hr/>
	6,330	5,453
	<hr/>	<hr/>

The average weekly number of employees during the period was as follows:

	Number	Number
Administration	65	53
Sales	30	24
Production and distribution	561	566
Research	3	3
	<hr/>	<hr/>
	659	646
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS

for the year ended 31 December 1986

4 Interest payable

Interest payable is made up of recharges by holding companies in respect of bank loans and other short term loans.

5 Interest receivable

Interest receivable is in respect of bank deposit accounts.

6 Profit on ordinary activities before tax

The profit before tax is arrived at after charging:

	1986 £000's	1985 £000's
Directors' emoluments	Nil	Nil
Depreciation and amortisation of fixed tangible assets	486	444
Auditors' remuneration	11	9
Plant hire and leasing charges	450	415
	<hr/>	<hr/>

7 Taxation

No tax is payable in respect of the result for the year (1985: Nil) in view of tax losses available.

8 Profit on ordinary activities after tax

Losses of £5,000 (1985: £15,000 profit) before provisions (see note 13) have been dealt with in the accounts of the holding company.

9 Extraordinary items

	1986 £000's	1985 £000's
Provision for closure and rationalisation costs	263	263
Profit/(loss) on sale of fixed assets	81	(166)
	<hr/>	<hr/>
	344	97
	<hr/>	<hr/>

SMEDLEY'S LIMITED

NOTES TO THE ACCOUNTS
for the year ended 31 December 1986

10	Tangible fixed assets	Freehold land and buildings £000's	Plant machinery & vehicles £000's	Total £000's
	The group			
	Cost or valuation			
	At 1 January 1986	1,936	3,356	5,292
	Additions:			
	at cost	2,022	1,289	3,311
	Disposals	-	(219)	(219)
	At 31 December 1986	3,958	4,426	8,384
	At valuation: 1981	-	224	224
	1982	-	1,178	1,178
	1984	-	380	380
	At cost	3,958	2,644	6,602
	At 31 December 1986	3,958	4,426	8,384
	Depreciation			
	At 1 January 1986	112	1,758	1,870
	Disposals	-	(153)	(153)
	Charge for year	66	420	486
	At 31 December 1986	178	2,025	2,203
	Net book value			
	At 31 December 1986	3,780	2,401	6,181
	At 31 December 1985	1,824	1,598	3,422

Items included at valuation were those valued by the directors.

The depreciable amount of the freehold property during the year was
£3,589,000.

SMEDLEY'S LIMITED

NOTES TO THE ACCOUNTS for the year ended 31 December 1986

Jayson, Arnold & Fowell

10 Tangible fixed assets (continued)

The company	Plant machinery & vehicles £000's	Total £000's
Cost or valuation		
At 1 January 1986 and at 31 December 1986	24	24
Depreciation		
At 1 January 1986	11	11
Charge for year	4	4
At 31 December 1986	15	15
Net book value		
At 31 December 1986	9	9
At 31 December 1985	13	13

11 Fixed asset investments

	1986 £000's	1985 £000's
Shares in subsidiaries at cost	433	433
Less: Provided in previous years	(433)	(433)
	-	-

Losses incurred by subsidiary companies have given rise to net deficits in those companies and accordingly provisions have been made against the value of shares held and amounts due from subsidiary companies (see note 13).

At 31 December 1986 the company owned the whole of the issued share capital of the following companies (incorporated in England unless otherwise stated).

	Principal activity
Goldhanger Fruit Farms Limited	Canning and freezing of food products
Rosalind Foods Limited	Processing of food products
Smedley Foods Limited	Non-trading
Masterpiece Foods Limited (incorporated in Scotland)	Non-trading
TKM Foods Limited	Non-trading

SMEDLEY'S LIMITED

NOTES TO THE ACCOUNTS

for the year ended 31 December 1986

12	Stocks	The group	
		1986	1985
		£000's	£000's
	Raw materials	1,788	1,929
	Finished goods	11,741	10,141
		<hr/>	<hr/>
		13,529	12,070
		<hr/>	<hr/>

13	Debtors	The company		The group	
		1986	1985	1986	1985
		£000's	£000's	£000's	£000's
	Trade debtors	3,908	4,263	3,909	4,263
	Amount owed by: fellow subsidiaries	-	-	40	7
	Subsidiaries	27,654	25,577	-	-
	Other debtors and prepayments	325	933	331	934
		<hr/>	<hr/>	<hr/>	<hr/>
		31,887	30,773	4,280	5,204
		<hr/>	<hr/>	<hr/>	<hr/>
	Amount owed by subsidiaries	39,496	40,224		
	Less: Provisions: (see note 11) in previous years	(14,647)	(17,248)		
	in year	2,805	2,601		
		<hr/>	<hr/>		
		27,654	25,577		
		<hr/>	<hr/>		

14	Creditors: amounts falling due within one year	The company		The group	
		1986	1985	1986	1985
		£000's	£000's	£000's	£000's
	Bank overdrafts and loans	40	1	1,134	372
	Trade creditors	9,052	5,626	9,052	5,626
	Amounts owed to: fellow subsidiaries	-	-	52	60
	holding company	19,949	23,970	11,137	13,353
	Other creditors and accruals	603	1,737	760	2,230
		<hr/>	<hr/>	<hr/>	<hr/>
		29,644	31,334	22,135	21,641
		<hr/>	<hr/>	<hr/>	<hr/>

SMEDLEY'S LIMITED

NOTES TO THE ACCOUNTS for the year ended 31 December 1986

15 Creditors: amounts falling due after more than one year

	The company		The group	
	1986	1985	1986	1985
	£000's	£000's	£000's	£000's
5% convertible subordinated loan stock 2011	7,000	7,000	7,000	7,000

16 Deferred taxation

Deferred taxation is not provided as no liability is expected to arise in the foreseeable future. The potential liability for deferred taxation on accelerated capital allowances will be offset by losses available for carry forward.

17 Called up share capital

	1986	1985
	£000's	£000's
Authorised 15,000,000 ordinary shares of £1 each	15,000	15,000
Alotted and fully paid 5,159,400 ordinary shares of £1 each	5,159	5,159

SMEDLEY'S LIMITED

NOTES TO THE ACCOUNTS
for the year ended 31 December 1986

18 Profit and loss account

	1986 £000's	1985 £000's
The group		
Balance brought forward	(16,604)	(19,220)
Movement in year		
Profit for year	2,800	2,616
	<hr/>	<hr/>
Balance carried forward	(13,804)	(16,604)
	<hr/>	<hr/>
The company		
Balance brought forward	(16,207)	(18,823)
Movement in year		
Profit for year (see notes 8 and 13)	2,800	2,616
	<hr/>	<hr/>
Balance carried forward	(13,407)	(16,207)
	<hr/>	<hr/>

19 Ultimate holding company

The company's ultimate holding company is Hillsgdown Holdings Limited plc, a company incorporated in England.