AGA Foodservice Group

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Report of the directors

Report of the directors

The directors present their annual report on the affairs of the Group, together with the financial statements and auditors' report, for the year ended 31st December 2006

Principal activities

Aga Foodservice Group plc is the holding company of the Group and its principal trading subsidiaries are shown on page 70 An overview and description of the principal activities of the business is provided on pages 4 to 13

Review of the business

The Company is required to set out in this report a fair view of the business of the Group during the financial year ended 31st December 2006, the position of the Group at the end of the financial year and a description of the principal risks and uncertainties facing the Group (known as the business review) The information that fulfils the requirements can be found in the business review This includes a financial review on pages 14 to 18 including reference to financial instruments, operations on pages 4 to 13, risks and uncertainties on pages 16 to 18, resources on page 18 and corporate social responsibility on pages 34 to 37, which are incorporated into this report by reference

Dividends

The profit attributable to shareholders for the year ended 31st December 2006 was £31 1m (2005 £34 0m) The directors propose a final ordinary dividend of 7 0p per share to be paid on 1st June 2007 to members on the register at the close of business on 27th April 2007, which together with the interim dividend of 3 5p paid on 6th December 2006, makes a total of 10 5p per ordinary share for the year (2005 9 2p)

Special dividend and share consolidation

Having taken into account the strength of the Group's financial position, the board is proposing to make a further return to shareholders by way of a special dividend of 43 0 pence per share In addition, the board is proposing to consolidate shares following payment of the special dividend as detailed in a separate circular to shareholders

Share capital

Full details of the movements in the issued share capital of the Company are provided in note 11 on page 78

At the Annual General Meeting ('AGM') of the Company held on 4th May 2006, the shareholders approved a resolution for the Company to make purchases of its own shares up to a maximum number of 12,849,369 ordinary shares of 25 pence each The resolution remains valid until the conclusion of this year's AGM No shares were bought back under this authority during the year and at present the Company does not hold any shares in treasury

Resolutions

An explanation of all of the resolutions to be proposed at the AGM of the Company to be held on 11th May 2007 are set out in a separate circular to shareholders with the Notice of AGM

Major shareholdings

On 16th March 2007, the Company had been notified in accordance with sections 198-208 of the Companies Act 1985 and under the Transparency Directive, the following interests in the ordinary share capital of the Company

Shareholder	Ordinary shares of 25p each	% of issued share capital
Aviva plc	9,712,310	7 52
JP Morgan Chase & Co	8,464,190	6 55
Cazenove Capital Management Ltd	8,087,475	6 26
Prudential plc	6,580,913	5 09
Legal & General Investment Management Ltd	4,126,000	3 19

Directors and their interests

The directors, all of whom served throughout the year, are detailed on pages 20 and 21 In accordance with the Company's Articles of Association, Peter Tom, Paul Dermody and Stephen Rennie retire by rotation and being eligible, offer themselves for re-election at the forthcoming AGM In proposing the re-election and reappointment of the non-executive directors, Peter Tom and Paul Dermody, the Chairman confirms to shareholders that following a formal performance evaluation, the individual's performance continues to be effective, they remain independent in judgement and they have expressed a willingness and ability, in terms of time commitment, to continue in their roles

Details of the directors' emoluments are set out on page 31 The directors' service contracts are disclosed on page 31 The beneficial interests of the directors and their immediate family in the Company's issued share capital are given on page 31 and their interest in share options are detailed on page 32 Other than service contracts, no director had any material interest in any contract with any Group company at any time in the year

Political and charitable donations

During the year the Group has made charitable donations totalling £6,502 (2005 £18,637), principally to local organisations serving the communities in which the Group operates No political donations were made in the year (2005 nil)

Research and development

Research and development plays an important role in the development of the Group with product innovation a key feature of the Group's strategy Each manufacturing business has its own development department close to its production facility to encourage rapid response times The Group capitalises certain development spend under IAS 38 During the year, the Group capitalised expenditure on development of £2 8m (2005 £2 7m)

Supplier payment policy

The Company's policy is to settle terms of payment with suppliers, when agreeing the terms of each transaction Individual operating businesses within the Group are responsible for establishing appropriate policies with regard to the payment of their suppliers Trade payables at the year end equated to 81 days of related purchases (2005 80 days)

Employees

The Group is committed to a policy of equal opportunity with the objective of promoting a workplace which is free from discrimination, harassment and victimisation The policy requires that full and fair consideration is given to disabled applicants in terms of employment Furthermore, career development opportunities and training for disabled persons is available as appropriate, with particular attention paid to the needs of individuals who become disabled in employment

The Group has a policy of actively communicating information to employees concerning the development of the Group and how this may affect their interests and of ensuring their appropriate involvement Further details of the Group's human resources policies are provided in the corporate social responsibility report on pages 34 to 37

Auditors

During the year, an audit tender process was undertaken and Ernst & Young LLP were appointed auditors Further details are available on pages 27 to 28 Ernst & Young LLP have indicated their willingness to continue in office

Resolution 6 set out in the notice of AGM proposes that Ernst & Young LLP should be reappointed as the Company's auditors and Resolution 7 authorises the directors to determine their remuneration

In the case of each of the persons who are directors of the Company at the date when this annual report was approved, so far as each of the directors is aware, there is no relevant audit information of which the Company's auditors are unaware, and each of the directors has taken all steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information This information is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985

Annual General Meeting

The notice of Annual General Meeting to be held at 12 noon on Friday 11th May 2007 is included in a separate circular provided to shareholders

By order of the board
P M Sissons
Secretary
Solihull
16th March 2007

P M Sissons

Corporate governance

Statement of compliance with the Combined Code

The Company is committed to the highest standards of corporate governance and throughout the year ended 31st December 2006 the Company complied with the principles set out in section 1 of the Combined Code on Corporate Governance issued in 2003 by the Financial Reporting Council ('the Code') In accordance with the Financial Reporting Council's recommendations the Company has voluntarily complied with the revised principles set out in the 2006 Code during the year This statement describes how the principles and provisions of the Code have been applied

Directors' and board effectiveness

The board is responsible to the Company's shareholders for the success of the Company, the Group's system of corporate governance, its strategic objectives and the stewardship of the Company's resources The board is satisfied that it meets the Code's requirements for effective operation The board takes full responsibility for social, environmental and ethical matters which are also included in the risk management process The board has considered and implemented, where appropriate, the guidelines on corporate social responsibility ('CSR') issued by the Association of British Insurers

The board promotes the success of the Group and provides leadership within a framework of prudent and effective controls that enable risk to be assessed and managed The board ensures that adequate financial and human resources are made available to ensure these objectives are met

There were no changes to the composition of the board or its committees during the year The board currently comprises the chairman, chief executive, two other executive directors and four independent non-executive directors The directors' biographies are shown on pages 20 and 21 The roles of the chairman and chief executive are separate and the division of responsibilities between them is set out in writing and regularly reviewed by the board The chairman leads the board, ensuring that each director, particularly the non-executive directors, is able to make an effective contribution He is responsible for the effective functioning of the board, and with the assistance of the company secretary, ensuring that information distributed to the board is sufficient, accurate, timely and clear and is appropriate to enable the board to discharge its duties The chairman ensures there is appropriate communication with shareholders and this is reported to the board as a whole The chief executive maintains day-to-day management responsibility for the Company's operations, implementing

Corporate governance

Group strategies and policies agreed by the board

The board held eight board meetings during the year, plus five meetings to consider matters in relation to the approach to Enodis In addition there were four board sub-committee meetings, to approve financial results and other regulatory announcements

Attendance at board and board committee meetings during 2006 is detailed in the table shown below

Peter Tom has been the senior independent director throughout the year The role of the non-executive directors is to enhance the independence and objectivity of the board's deliberations and decisions All non-executive directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement The chairman was deemed by the Company to have been independent at the time of his appointment

In accordance with the Company's Articles of Association, all directors submit themselves for re-election at least once every three years, subject to their continued satisfactory performance and taking into account the need for the progressive refreshing of the board

Operation of the board

To ensure the effective control of the Group, the board has a number of items reserved for its sole consideration and approval The schedule of matters reserved for board decision include the following key areas

- approval of results announcements and the annual report and accounts,
- dividend policy,
- key financial matters including major capital investments, restructuring costs, acquisitions and divestments, treasury policy, significant changes in accounting policy and practice,
- capital structure,
- corporate strategy,
- approval of the Group's budget and business plan,
- corporate governance and listing requirements,
- delegations of authority to the chief executive's committee,
- corporate social responsibility

The schedule of matters reserved for board decision was reviewed during the year as part of the board performance review process The board has a forward rolling business agenda, which is updated after each meeting to include specific topics that individual directors have requested be reviewed at future meetings The board reviews the key activities of the business and receives papers and presentations from management and external advisers Items regularly considered at board meetings include health, safety and environmental matters, finance and operational reviews, business development initiatives, special projects, legal and regulatory developments that affect the Group and governance and best practice guidelines The company secretary is responsible to the board, and is available to individual directors, in respect of board procedures

Board information, training and development

The nomination committee ensures that all directors receive a full induction on joining the board Directors receive regular updates appropriate to the business throughout the year and the Company provides resources for directors to develop and refresh their knowledge and capabilities as required The non-executive directors are encouraged to undertake site visits, and in addition at least one board meeting is held at an operating site during the year All directors are suitably qualified, trained and experienced so as to be able to participate fully in the work of the board

To assist with the independent conduct of their function, the non-executive directors are able to obtain professional advice at the Company's expense, if required in connection with their duties, and a process is in place to facilitate this In addition, all directors have access to the services of the company secretary

Board performance evaluation

During the year the board undertook a formal evaluation of its performance and the performance of its committees and the individual directors The formal evaluation process of questionnaires was supplemented with individual interviews undertaken by the chairman Any specific issues raised in the questionnaires were followed up by the chairman in one to one interviews with each director, along with a number of other topics for discussion The questionnaires considered a

	Board		Audit and Risk Committee		Nomination Committee		Remuneration Committee	
Director	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
W B McGrath	8	8	-	-	-	-	-	-
S Rennie	8	8	-	-	-	-	-	-
S M Smith	8	8	-	-	-	-	-	-
V Cocker	8	8	-	-	2	2	-	-
H M Mahy	8	8	4	4	2	2	5	5
P W G Tom	8	7	4	2	2	2	5	5
P B Dermody	8	7	4	4	2	2	5	5
P E Jackson	8	7	4	3	2	2	5	4

number of areas including the performance of the chairman, chief executive and non-executive directors, the operation and performance of the board, its committees and the committee chairmen, governance matters and evaluation methods The one to one interviews included a broad range of topics including discussions on specific projects and performance, specific areas for improvement, individual performance, knowledge gaps and training requirements The non-executive directors, including the chairman, met without the executive directors being present during the year and led by the senior independent director, the non-executive directors met without the chairman present to review his performance

Based on the feedback from the questionnaire and the individual interviews, a report providing an outline of the findings and draft action plan was drawn up The results and action plan were considered by the board and, where relevant, by each committee before being finalised The aim of the action plan is to continually improve processes, procedures and performance Actions highlighted in the 2006 action plan include

- the provision of additional information to cover specific business performance and other issues which arise during the year,
- consideration of additional site visits, visits to trade shows, opportunities to meet shareholders - to extend non-executive understanding of the business and of shareholder views,
- additional briefings on new laws, regulations and best practice on governance matters

The schedule of matters reserved for the board, statements outlining the roles of the chairman and chief executive, the terms of reference of the committees and other policy statements are reviewed annually as part of the formal evaluation process

The chairman communicates frequently with the non-executive and executive directors Directors are also encouraged to discuss any issues or concerns with the chairman at any time throughout the year Directors are encouraged to ensure that any unresolved issues are formally minuted

The Company indemnifies directors for claims made against them in relation to their duties, with the exception of losses incurred as a result of their wilful negligence The Company maintains appropriate directors' and officers' liability insurance

Accountability and audit

The statement of the responsibility of directors for the preparation of the directors' report and the accounts under IFRS is set out on page 26 (page 79 in respect of UK GAAP) and the going concern statement is on page 27 (page 79 in respect of UK GAAP)

The board aims to provide a balanced and understandable assessment of the Company's position and its prospects and this is outlined in the business review

Communication with shareholders

In its reporting to shareholders, the board aims to present a balanced and understandable assessment of the Group's financial position and prospects and this is outlined in the business review The Company reports formally to shareholders twice a year when its half year and full year results are announced and an interim and a full year report is issued to shareholders (In addition trading statements are issued shortly after the half year and full year) These reports are made available on the corporate website (www agafoodservice com) At the same time, the executive directors give presentations to institutional investors, analysts and the media Copies of the major presentations are also made available on the corporate website The Company seeks to present an accurate and objective view in a manner appropriate for the intended audience Contact with the major shareholders is principally maintained by the chief executive and finance director, who ensure that the views of shareholders are communicated to the board as a whole The board is provided with a summary of the feedback from broker and shareholder meetings on a six-monthly basis and have met with the Company's brokers during the year to ensure it is aware of the current views of major shareholders and of any material issues they may have

The chairman, senior independent director and other non-executive directors make themselves available to meet with shareholders and attend meetings if required In accordance with the Code, the chairman met directly with major shareholders during the year, without the executive directors being present No specific meetings were requested with the senior independent director or other non-executive directors during the year

Constructive use of the AGM

Notice of the AGM and related papers are sent to shareholders at least twenty one clear days before the meeting, and separate resolutions are proposed on each substantial issue The AGM is considered by the board to be an important opportunity for direct communication with the Company's shareholders The chief executive provides a brief presentation outlining developments within the Group The directors are available to answer questions, formally during the AGM and shareholders are invited to meet the directors informally after proceedings have ended The Company makes the details of the proxy votes cast on each resolution available immediately after the AGM and also issues a market announcement setting out the results of the AGM Details of the 2007 AGM are set out in the notice of meeting in a separate circular issued to shareholders, along with details of the facilities available for proxy votes to be cast electronically The Company offers shareholders the right to withhold their vote, if they so wish, in line with best practice As detailed on page 81, shareholders may contact our investor relations' personnel at the corporate office or by email to ir@agafoodservice com with any questions, issues or concerns The non-executive directors may be contacted by email at nonexec@agafoodservice com

Corporate governance

Internal control and risk management

The board is ultimately responsible for the Group's systems for financial reporting, internal control and risk management Together with the audit and risk committee, the board confirms that it has established procedures necessary to comply with the Code to implement the guidance on internal control issued by the Turnbull Committee, and is reporting in accordance with that guidance

The board is responsible for ensuring that the Group maintains systems of internal controls, including internal financial control, operational and compliance controls and risk management systems and for monitoring the effectiveness of these controls

Meetings of the board and the audit and risk committee ensure that risk management and internal control are considered on a regular basis throughout the year, and are subject to continuous review and development This includes consideration of corporate social responsibility matters as outlined in the report on pages 34 to 37

The Group's organisational structure is focussed on its four business reporting segments These are all separately managed but report to the board through an executive director The executive management team receives a monthly summary of the financial results from each business unit in a standardised reporting format The Group has in place an annual budgeting process and the draft budget is approved annually by the board Business performance is a standing agenda item at board meetings A comparison of forecast and actual results is considered, with comparisons against budgets and the prior year

There is an ongoing process for identifying, evaluating and managing significant risks across the Group Risk reviews are carried out at each business unit, taking into account the likelihood of occurrence and the degree of impact Risks considered include operational and financial contingencies, legal and regulatory compliance and social, environmental and ethical issues The process identifies both short and long-term risks Such systems are designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss

At business unit level, there are regular management and board meetings to review all aspects of business performance, including potential risks to the Group The executive directors undertake frequent visits to business units and business unit management have formal quarterly reviews with the executive directors to discuss strategy, business performance and significant operational and financial risks Key procedures include planning, budgeting and investment appraisal Feedback is provided to the board

The internal and external auditors report regularly, to management, the audit and risk committee and the board on their activities, findings and recommendations

A control structure is in place with defined delegated authorities for management throughout the Group and includes clear approval requirements for decisions which have a major financial implication for the business units concerned Continual monitoring of systems of internal financial control is the responsibility of all management teams

The directors confirm that they have conducted a specific annual review of the effectiveness of the Group's systems of internal control and risk management in respect of the financial period and up to the date of this report Systems of internal control are designed to provide reasonable, but not absolute assurance, to safeguard shareholders' investments, the Group's assets and ensure that financial information and accounting records are reliable

Risk factors

The system for monitoring risks is continuous and an ongoing process throughout the year Risk is a formal agenda item at the October meeting of the audit and risk committee Key risks and uncertainties are set out on pages 16 to 18 of the business review

This process has identified a number of risks where action plans have been developed to eliminate, minimise or mitigate them (including insurance where appropriate) The board has not identified or been advised of any significant failings or weaknesses, where action has not been taken, which might have a material impact on the business

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements The directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards ('IFRS') and have elected to prepare financial statements for the Company in accordance with UK GAAP Company law requires the directors to prepare such financial statements to provide a true and fair view of the state of affairs of the Group in accordance with the Companies Act 1985

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and Presentation of Financial Statements' In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards Directors are also required to

- properly select and consistently apply suitable accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985

After making enquiries, the directors have a reasonable expectation that the Company has adequate financial resources to continue in operational existence for the foreseeable future In preparing the financial statements on pages 38 to 41 on a going concern basis, the directors consider that the Company and the Group have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed

The directors are responsible for the maintenance and integrity of the Company website The work carried out by the auditors does not involve consideration of these matters and, accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Committees of the board

The board delegates specific responsibilities to board committees which carry out a significant amount of work towards the successful management of the Group The board has established audit and risk, remuneration and nomination committees as described below Each board committee has terms of reference, agreed by both the board and each board committee and these are reviewed annually as part of the evaluation process These terms of reference are available on the Group website at www agafoodservice com In addition, certain matters have been delegated to the chief executive's committee which comprises the executive directors and meets as required to conduct business referred to it by management within delegated authorities outlined in the schedule of matters reserved for the board

Audit and risk committee

The current membership of the audit and risk committee consists of Paul Dermody (chairman), Paul Jackson, Helen Mahy and Peter Tom Each of these directors is non-executive and regarded by the board as independent The board has determined that Paul Dermody has significant recent and relevant financial experience The chairman, chief executive, Group finance director, head of internal audit and the external auditors attend the majority of meetings by invitation Other senior management and other advisers are invited to attend meetings as required The committee met separately with the external auditors without executive management being present during the year The head of internal audit reports to the Group finance director and has direct access to the chairman of the committee The committee members, all other directors and senior management have direct access to the external auditors throughout the year, to seek advice or raise any issues or concerns

The remit of the audit and risk committee is set out in full in its terms of reference which are published on the Group's website The main responsibilities of the audit and risk committee are to assist the board in the effective discharge of its responsibilities for financial reporting, internal control and risk management processes

The audit and risk committee met four times during the year and has an agenda linked to events in the Group's financial calendar Items discussed by the audit and risk committee during the year included

- review of the results and annual report and accounts, monitoring the integrity of financial statements of the Group and considering any significant reporting judgements contained therein,
- review of formal announcements relating to the Group's financial performance,
- review of the effectiveness of the Group's internal financial control and risk management systems,
- monitoring the effectiveness of the Group's internal audit function and ensuring it is adequately resourced This included approving the appointment of a new head of internal audit and an internal auditor during the year,
- considering reports from internal auditors on work undertaken during the year including audits, investigations and whistleblowing reports It agreed the programme of work for the internal audit function for the year ending 31st December 2007,
- considering reports from the external auditors, including their review of the effectiveness of controls across the Group and a review of management action taken in response to the work undertaken by the auditors,
- monitoring and reviewing the external auditors independence and objectivity, reviewed and agreed the nature and scope of the audit, monitored the performance of the external auditors and effectiveness of the audit process,
- made a recommendation with respect to the level of audit fees paid to the external auditors,
- review of the external auditor non-audit fees and consultancy spend,
- received updates from the Group's treasury and taxation departments

The audit and risk committee keeps the potential re-tendering of the external audit services under review Following completion of the audit work in respect of the preliminary results for the year ended 31st December 2005, the committee considered whether it was appropriate to undertake a formal review exercise as one had not been undertaken for a number of years The committee considered that a review would enable it to consider the scope and programme of work to be undertaken by the external auditors, to consider their independence and objectivity of services provided and to review the level of fees paid for those services The committee recommended

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to the board that a tender process be undertaken, which the board sanctioned Four firms participated in the review process including the incumbents, PricewaterhouseCoopers LLP Following completion of the tender process which took into account the views of business units, head office personnel and executive management and the audit and risk committee members, the committee recommended to the board that Ernst & Young LLP be appointed auditors Ernst & Young LLP agreed that they would accept the appointment if it was offered The board formally approved the recommendation of the audit and risk committee PwC were informed of the outcome of the tender process and on 1st June 2006 they submitted their resignation in accordance with section 392 of the Companies Act In accordance with section 394 of the Act, PwC confirmed there were no circumstances connected with their resignation which they considered should be brought to the notice of the members or creditors of the Company The directors exercised the power under section 388 (1) to fill the casual vacancy and Ernst & Young LLP were appointed Resolution 6 set out in the notice of AGM recommends shareholders reappoint Ernst & Young LLP as the Company's auditors and Resolution 7 authorises the directors to determine their remuneration

The committee recognises that there are occasions when it is advantageous to use the external auditors to undertake additional non-audit services, when they are best placed to do so The committee operates under a formal policy approved by the board to help ensure the independence and objectivity of the external auditors is not compromised The policy states that non-audit fees paid to the principal auditors should not exceed 250% of the audit fee, except in the case of a significant event The chairman of the audit and risk committee is required to authorise non-audit work above a pre-agreed threshold Note 3 to the Group accounts provides a breakdown of 2005 and 2006 audit and non-audit fees

Nomination committee

Membership of the nomination committee comprises Vic Cocker (chairman), Paul Dermody, Paul Jackson, Helen Mahy and Peter Tom Each of these directors is non-executive and regarded by the board as independent The chief executive is invited to attend most meetings of the nomination committee

The remit of the nomination committee is set out in full in its terms of reference which are published on the Group's website The main responsibilities of the nomination committee are to keep under review the size, structure and composition of the board and its committees, to ensure that adequate succession planning is in place, when necessary identify and nominate individuals for appointment to the board and its committees, ensuring newly appointed directors receive full induction materials and guidance, and to consider the reappointment of directors to ensure that the board has a good balance of skills, knowledge and experience

All non-executive directors are appointed for an initial three-year term pursuant to a standard letter of appointment, which is available for viewing at the Company's registered office during normal business hours or at the AGM Details of the executive directors' contracts are set out on page 31

The nomination committee met twice during the year Items discussed by the nomination committee during the year to enable it to discharge its duties in accordance with its terms of reference included

- the reappointment of the chairman, led by the senior independent director, following the completion of two three year terms of office,
- the proposal to re-elect Peter Tom, Paul Dermody and Stephen Rennie under the retirement by rotation provisions and to consider the reappointment of Peter Tom and Paul Dermody following their initial three year term of office,
- the board and board committee evaluation process

There were no new appointments to or resignations from the board during the year

The nomination committee in conjunction with the board receives updates from the chief executive and Group human resources director on succession and development planning for senior positions within the Group and as part of the performance evaluation action plan the committee has requested a specific presentation from the Group human resources director during 2007

Changes to directors' commitments are reported to the committee as they arise and are considered on their individual merits There have been no significant changes to the chairman's external commitments during the year

Remuneration report

Remuneration report

This report has been prepared in accordance with Schedule 7A to the Companies Act 1985 and also meets the relevant requirements of the Listing Rules of the Financial Services Authority The report describes how the board has applied the principles relating to director's remuneration As required by the Act, Resolution 5 will be proposed at the AGM and invites the members to approve the remuneration report for the financial year ended 31st December 2006

The Act requires the auditors to report to the Company's members on certain parts of the director's remuneration report and to state whether in their opinion, those parts of the report have been properly prepared in accordance with the Act Sections of the report that are subject to audit are separately referenced as audited and all other information is unaudited

Remuneration committee

The Company has established a remuneration committee which is constituted in accordance with the recommendations of the Combined Code The members of the committee were Peter Tom (chairman), Paul Dermody, Paul Jackson and Helen Mahy Each member of the committee is considered by the board to be independent There have been no changes to the composition of the committee during the year The chairman, chief executive and external advisers are invited to attend meetings as required No committee member or attendee at the remuneration committee participates in any discussion on his or her own remuneration

The remit of the remuneration committee is set out in full in its terms of reference which are available on the Group's website The main responsibilities of the remuneration committee are the development of Group policy on executive remuneration and the determination of the remuneration of the executive directors, the chairman and company secretary It maintains a dialogue with shareholder representatives to ensure remuneration arrangements are designed to align remuneration more closely with shareholder interests It also maintains an overview of remuneration of the senior employees of the Group and of the Company's share plans

The remuneration committee met five times during the year Items discussed by the remuneration committee during the year to enable it to discharge its duties in accordance with its terms of reference were

- remuneration issues and disclosure,
- directors' remuneration report,
- review of the executive bonus scheme targets,
- total shareholder return update,
- benchmarking and market trends including a report from advisers,
- consideration of further independent external advice

The board accepted all recommendations made by the remuneration committee during the year

The committee is authorised to take advice from independent remuneration consultants and other advisers During 2006, the committee did not take any specific external independent advice It received a general remuneration market update from Eversheds LLP who had provided remuneration advice to the committee in 2005 when remuneration policy and the structuring of directors remuneration packages was reviewed Alithos Limited provide total shareholder return calculations in respect of the options granted under the long-term incentive plan The committee also has access to a range of external guidance documents to assist it in fulfilling its duties The committee has taken further remuneration advice from KPMG LLP during 2007

Remuneration policy for the executive directors

Executive remuneration packages are prudently designed to attract, motivate and retain directors of the calibre required to ensure the continued success and development of the business The performance measurement of the executive directors and the determination of their annual remuneration package are undertaken by the committee, taking into account the level and structure of remuneration of members of senior management and pay and conditions elsewhere in the Group There are five main elements to the remuneration package for executive directors (and senior management)

- Basic annual salary
- Benefits in kind
- Annual bonus payments
- Long-term share option incentives
- Pension arrangements

The committee believes that total compensation should be set at levels that are competitive in comparison to the relevant peer group The Company's policy is that a substantial proportion of the executive directors remuneration should be performance related As described below, executive directors may earn annual incentive payments of up to 75% of their basic salary together with the benefits of participation in long-term share option incentives

In certain circumstances, the board believes that it may be beneficial to the Company for executives to hold appointments outside the Group Any such appointments are subject to board approval and directors are restricted to a maximum of two appointments each for which they may retain the fees At present none of the executive directors hold any outside directorships

Basic salary

Salaries are reviewed annually and are targeted broadly at the median position in the relevant peer group The remuneration committee takes into consideration the size, complexity and responsibilities of the individual's role, the individual's experience in the role and the overall business performance In deciding the appropriate level, the committee considers salary practices prevailing in the Group as a whole and relies on objective research, which gives up to date information on a comparator group of companies and the FTSE 250 as a whole Basic salaries were reviewed in December 2005 with increases of 3 5% taking effect from 1st January 2006 They were reviewed again in December

Remuneration report

2006 and increased by 7% from 1st January 2007

Benefits in kind

The executive directors receive certain benefits in kind, principally the provision of a car or car benefit, fuel or equivalent cash allowance, private health care and life assurance

Annual bonus payments

The committee establishes the objectives that must be met each financial year if a cash bonus is to be paid In setting appropriate bonus parameters, the committee reviewed objective research on a comparator group of companies The committee believes that any incentive compensation awarded should be tied to the interests of the Company's shareholders On the recommendation of Eversheds LLP, in 2005 the bonus scheme was simplified with the performance measure based on the improvement in earnings per share on the prior year compared to the budget The maximum performance related bonus that can currently be paid is 75% of basic annual salary The committee approves both the target and sliding scale at the beginning of each year and reviews performance against the target at the end of the year Incentive payments for the year ended 31st December 2006 were 40%

Long-term incentive plan ('LTIP')

The committee continues to view the LTIP, introduced in 1999, as an appropriate method to incentivise executive directors and senior managers to enable them to potentially benefit from the improved total shareholder return ('TSR') of the Company

The committee has responsibility for supervising the scheme and the grant of options under its terms, subject to a maximum annual value of 100% of salary

The LTIP consists of a right to acquire shares at a nominal value, which will be exercisable after a period of three years from the date the option was granted, subject to performance criteria being met The performance criteria is based on a comparison of the Company's TSR with the TSR of companies in a comparator group approved by the remuneration committee Historically this has been the engineering-general sector of the FTSE All Share Index If the Company's TSR places it in the top 25% (upper quartile) of the comparator companies, the participant can acquire all the shares granted If the Company's TSR is at the mid-point, 25% of the shares can be acquired There is a sliding scale, on a straight line basis, if the Company's TSR is between the upper quartile position and the mid-point The TSR performance measure has been applied on the basis of best practice advice received from independent advisers, Alithos Limited

None of the shares can be acquired unless the committee determines that there was a sustained improvement in the underlying financial performance of the Company during the period Once an option has vested, the percentage of shares to be awarded may be exercised during the remainder of the ten year period from the initial award, without further test

It is currently the committee's policy to phase in the granting of options rather than to award them in a single large block to an individual The committee granted LTIP options equivalent to 30% of the executives' salary in April 2006 Awards of LTIP options were also made to senior management Following the Company's reclassification to the Household Goods sector in January 2006, the remuneration committee agreed that the comparator group to be used for this award would be the FTSE 250 The interests of the directors at the beginning and end of the 2006 financial year in share options are as stated in the table on page 32 The LTIP options awarded in October 2003 were tested at the end of the performance period The annualised TSR of the Group over the performance period was 21 99% placing the Group in ninth position out of the twentyfive companies in the peer group As a result of meeting the performance condition 75% of the options awarded vested on the sliding scale The remaining options were lapsed

Share option schemes

The Company's senior executive and savings related share option schemes were allowed to lapse in 2004 and the Company is not seeking shareholder approval for new schemes at the present time

Pension arrangements

The committee takes into account pension arrangements and associated costs in reviewing remuneration policy

William McGrath, Stephen Rennie and Shaun Smith are members of a defined benefit pension scheme Their dependants are eligible for dependants' pensions and the payment of a lump sum in the event of death in service Pension arrangements provide for a pension on retirement of two-thirds of final pensionable remuneration at normal retirement age with 20 or more years of pensionable service From 2005, any increase in the annual pensionable remuneration of senior executives under the scheme is being limited by price inflation The pensions of William McGrath and Shaun Smith are already subject to the statutory earnings cap and they receive additional salary in lieu of pension on remuneration above the statutory cap as detailed in the table opposite

The introduction of the Inland Revenue's simplified tax regime for pension schemes in April 2006 does not have any material consequences for these arrangements, except in the case of Stephen Rennie The member intends to register for primary protection under the new regime and any recovery charge will be borne by him No additional or replacement benefits to compensate for the effects of the simplified tax regime on scheme benefits have been introduced There are no unfunded pension promises or similar arrangements for directors

The increase in the transfer value of the directors' accrued pensions at 31st December 2006, after deduction of contributions paid by them, is shown in the table on page 33 The transfer values shown are not payable to the individuals concerned During the year the Company paid premiums of £1,195 and £1,029 to provide life assurance cover on that part of William McGrath's and Shaun Smith's basic salary above the statutory cap for the year

Audited	Salary £000	Fees £000	Salary in lieu of pension above earnings cap £000	Benefits in kind and cash benefits £000	Annual bonus £000	2006 Total £000	2005 Total £000
W B McGrath	437	-	72	25	175	**709**	725
S Rennie	312	-	-	24	125	**461**	475
S M Smith	251	-	32	23	100	**406**	414
V Cocker	-	88	-	-	-	**88**	82
P B Dermody	-	30	-	-	-	**30**	30
P E Jackson (appointed December 2005)	-	30	-	-	-	**30**	1
H M Mahy	-	30	-	-	-	**30**	30
P W G Tom	-	30	-	-	-	**30**	30
J A George (resigned December 2005)	-	-	-	-	-	-	265
J D Lovering (resigned July 2005)	-	-	-	-	-	-	17
Total	**1,000**	**208**	**104**	**72**	**400**	**1,784**	2,069

• Benefits in kind comprise car or car benefit, fuel or cash allowance, private health care and life assurance
• There were no taxable expenses in 2005 & 2006 for any directors

Shareholding requirement

To ensure that directors' interests are aligned with those of shareholders, the board introduced a minimum shareholding requirement for executive directors in December 2004 Executive directors are expected to build up and maintain a shareholding in the Company with a value of at least one times annual salary, within a period of three years from appointment or introduction of this requirement

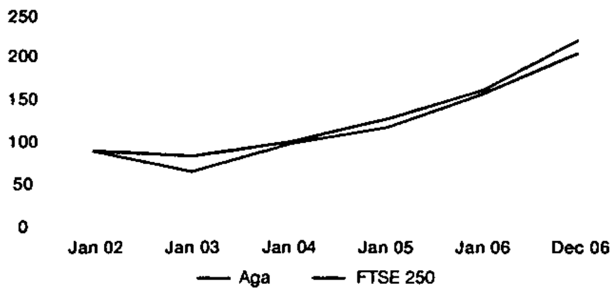
The interests of the directors in shares of the Company shown in the register kept under section 325 of the Companies Act 1985 and all of which are beneficially owned, are shown in the table below

Audited	At 16th March 2007	At 31st December 2006	At 31st December 2005
W B McGrath	165,029	156,029	138,029
S Rennie	79,000	70,000	60,000
S M Smith	103,000	94,000	80,000
V Cocker	50,000	50,000	45,000
P B Dermody	20,000	20,000	20,000
P E Jackson	1,000	1,000	-
H M Mahy	4,000	4,000	3,000
P W G Tom	20,000	20,000	20,000

Performance graph

The following graph shows the Company's performance, measured by total shareholder return, compared with the performance of the FTSE 250 This general index was selected following the Company's reclassification to the Household Goods sector, effective from January 2006, because it is the index used by the Company for the performance criterion for options granted under the LTIP in 2006 as the committee considered it to be the most appropriate comparator grouping

Aga Foodservice Group plc Total Shareholder Return Index vs FTSE 250 Total Shareholder Return Index for the 5 financial years ending 31st December 2006



Directors' contracts

It is the Company's policy that executive directors should have contracts with an indefinite term providing for a maximum of one year's notice in line with the best practice provisions set out in the Code In the event of early termination, the directors' contracts provide for compensation of up to a maximum of one year's basic salary for the notice period The committee does not consider it to be in the best interests of shareholders for directors' contracts, to provide explicitly for pre-determined compensation in the event of early termination However, the principle of mitigation would be applied to reduce any compensation payable to departing directors, with each case being taken on its own merits

AGA Foodservice Group

Remuneration report

Audited	Options under the 1994 Senior Executive Share Option Scheme approved in 1994		Long-Term Incentive Plan approved in 1999 Price shown is at date of award		
	at 288pps	at 321pps	at 235pps	at 307pps	at 387pps
W B McGrath					
At 1st January 2006	–	171,000	57,021	38,549	–
Exercised 16th January 2006	–	5,000	–	–	–
Exercised 20th March 2006	–	5,000	–	–	–
Granted 27th April 2006	–	–	–	–	33,922
Exercised 7th July 2006	–	4,000	–	–	–
Exercised 8th September 2006	–	4,000	–	–	–
Lapsed 26th October 2006	–	–	14,255	–	–
At 31st December 2006	–	153,000	42,766	38,549	33,922
Exercised 15th January 2007	–	4,000	–	–	–
Exercised 16th March 2007	–	5,000	–	–	–
S Rennie					
At 1st January 2006	75,000	–	40,000	27,521	–
Exercised 16th January 2006	75,000	–	–	–	–
Granted 27th April 2006	–	–	–	–	24,219
Lapsed 26th October 2006	–	–	10,000	–	–
At 31st December 2006	–	–	30,000	27,521	24,219
Exercised 15th January 2007	–	–	4,000	–	–
Exercised 16th March 2007	–	–	5,000	–	–
S M Smith					
At 1st January 2006	7,500	–	31,489	22,153	–
Exercised 16th January 2006	5,000	–	–	–	–
Exercised 20th March 2006	2,500	–	–	–	–
Granted 27th April 2006	–	–	–	–	19,486
Lapsed 26th October 2006	–	–	7,872	–	–
At 31st December 2006	–	–	23,617	22,153	19,486
Exercised 15th January 2007	–	–	4,000	–	–
Exercised 16th March 2007	–	–	5,000	–	–
Option grant date	**2 Apr 97**	**5 May 98**	**13 Oct 03**	**27 Apr 05**	**27 Apr 06**
Exercisable period	**2 Apr 00 to 1 Apr 07**	**5 May 01 to 4 May 08**	**13 Oct 06 to 12 Oct 13**	**26 Apr 08 to 26 Apr 15**	**27 Apr 09 to 26 Apr 16**

The mid-market price of ordinary shares at the beginning and end of the year was 323 8 pence and 432 0 pence respectively During the year the market price of ordinary shares ranged from 318 0 pence to 434 25 pence

Qualifying performance conditions are shown within Long-term incentive plan (LTIP) on page 30

Gains on the exercise of options are calculated using the market price on the date of exercise William McGrath exercised options at an average price of £3 60 and retained the shares making a gain on exercise of £7,055 (2005 Loss £76) Shaun Smith exercised options at an average price of £3 46 and retained the shares making a gain on exercise of £4,370 (2005 £24,555) Stephen Rennie exercised options at an average price of £3 32 He retained 5,000 shares and sold 70,000 shares making a gain on exercise of £33,000 (2005 nil) Therefore the total gains made by directors on exercise of options during 2006 was £44,425 (2005 £24,479)

Audited		Companies Act 1985 Schedule 7A				Listing Requirements	
	Accrued pension at 31st Dec 2006 £000 pa	Increase in accrued pension over the year £000 pa	Transfer value of accrued pension at 31st Dec 2005 £000	Transfer value of accrued pension at 31st Dec 2006 £000	Increase in transfer value over the year, net of director's contributions (note 1) £000	Increase in accrued pension over the year (net of inflation) £000 pa	Transfer value of increase in accrued pension over the year, net of director's contributions (note 2) £000
W B McGrath	32	4	268	335	64	3	32
S Rennie	161	10	2,151	2,436	276	6	67
S M Smith	39	3	340	401	58	2	19

Transfer values are calculated on the basis of actuarial advice in accordance with guidance note GN11
Note 1 reflects the comparison of the transfer value of the accrued pensions at the start and end of the period
Note 2 reflects the transfer value of the increase in the accrued pension over the period only

Stephen Rennie who will be proposed for re-election at the next AGM, has a service contract which provides for a notice period of one year Peter Tom and Paul Dermody are also proposed for re-election and being non-executive directors, do not have service contracts

Non-executive directors are appointed for an initial three year term, subject to re-election by shareholders at the first AGM after their appointment Details of the directors' contracts and letters of appointment are set out below

Executive	Date of contract	Notice period
W B McGrath	September 1998	12 months
S Rennie	January 1999	12 months
S M Smith	March 2001	12 months

Non-executive	Letter of appointment	End of period of appointment
V Cocker	June 2000	2009 AGM
P B Dermody	April 2004	2007 AGM
P E Jackson	December 2005	2009 AGM
H M Mahy	March 2003	2008 AGM
P W G Tom	February 2004	2007 AGM

Non-executive directors

All non-executive directors have specific terms of engagement, set out in their letters of appointment Their remuneration is determined by the board within the limits set out by the Articles of Association The advice received from Eversheds LLP in 2005 covered non-executive remuneration and took into consideration fees paid to non-executive directors of comparator companies The basic fee paid to each non-executive director in the year was £30,000 No additional fees are paid for attendance, chairing or being a member of board committees Non-executive directors cannot participate in the Company's option schemes, annual bonus scheme, receive any payment on termination and are not eligible to join the Company's pension scheme

The remuneration committee reviews the fees of the chairman and this was last reviewed in 2005 based on the advice from Eversheds LLP

External advice

The committee has recommended that fresh independent external advice be sought during 2007 in relation to remuneration policy, total packages and the balance of remuneration between salary and performance pay The review will take into consideration the chairman and company secretary's remuneration, prevailing practices in the Group, specifically in relation to senior management and will consider the introduction of new share schemes

Approval

This remuneration report has been approved by the board and signed on its behalf by

P W G Tom
Chairman of the remuneration committee
Solihull
16th March 2007

Corporate social responsibility

Introduction

Our commitment to Corporate Social Responsibility ('CSR') is encapsulated in our Statement of Core Principles which sets out our undertaking to act ethically and responsibly in all our business relationships and dealings with stakeholders We are committed to continuous improvements in all aspects of CSR – our policies, our systems, our performance and our reporting

As a supplier of premium cooking and refrigeration equipment to consumer and commercial foodservice markets, the Group sees a key part of its CSR programme as the development of products and services which help our customers to address a number of key issues including energy efficiency, healthier eating, improved food quality and hygiene in both commercial and domestic kitchens Thus, in addition to our work to improve the CSR-related performance of our own operations we also help our customers to address a number of the key CSR-related issues they face

In order to help raise the profile and awareness of CSR across the Group, the board makes two awards each year the chairman's award for environmental improvement, and the Group CSR award which is presented to the business with the most significant CSR initiative or has made the most progress in this area during the year

This report is supplemented by the Group's 2006 CSR Report which will be published on our website before the AGM in May 2007

Management

The board of Aga Foodservice Group plc recognises the importance of and takes ownership for CSR, which is reviewed as part of the ongoing risk management process The chief operating officer, Stephen Rennie, is responsible for the implementation of the Group's CSR polices, for ensuring that objectives and targets are achieved and that the board is kept up to date on CSR issues He is supported by the Group human resources director and CSR co-ordinator The managing director of each business has operational responsibility for CSR and is accountable to the chief operating officer for CSR matters

The Group undertakes a rolling programme of internal CSR audits which are conducted by functional specialists supported by external advisers where appropriate During the year six CSR audits were conducted at sites in Europe and North America, bringing to twenty five the total number of sites audited over the past three years

CSR reporting and benchmarking

The Group's annual CSR report is published on the corporate website in May each year The report includes further details of policies, procedures and performance, with case study examples describing implementation across the Group Aga Foodservice Group is a member of the FTSE4Good index and uses this index in conjunction with stakeholder consultations and other benchmarks to help identify key priorities and to drive progress

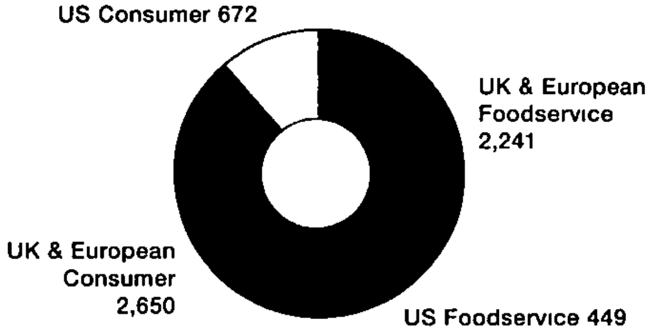
Stakeholder engagement

In accordance with our Statement of Core Principles, the Group engages in proactive dialogue with stakeholders and in particular liaises with shareholders, employees, customers, suppliers, local communities, government bodies, other authorities and non-governmental organisations This includes regular customer surveys, surveys of suppliers and reviews of the impact of our operations on local communities

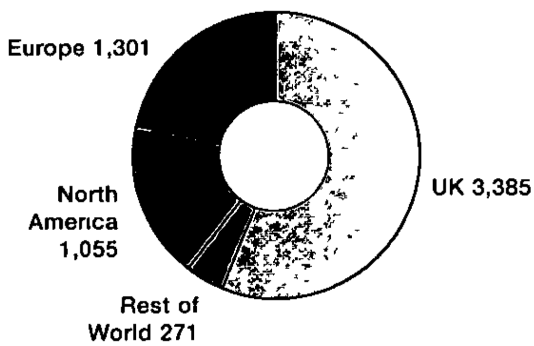
Human resources

During the year, the Group employed some 6,000 people in twelve countries and they are key to the Group's ongoing success Some 96% of our staff are permanent employees, 75% are male and 25% are female Of the individuals employed in management roles 68% are male and 32% are female

Employees by segment
(average per year)



Employees by region
(average per year)



The Group's policy is to provide equal opportunities and recruits, selects and promotes employees on the basis of their skills, qualifications, attitude and aptitude In accordance with UN guidance, the Group prohibits the employment of under age employees The Group invests in its people and we encourage them to develop to their maximum potential according to the needs of our businesses and customers

Human resources policies

The Group's Code of Conduct for employees outlines the standards of integrity and honest conduct expected, and explains that breaches of Company policy may result in disciplinary action and dismissal. The Group's whistleblowing policy is posted on the Group's website, in the Code of Conduct and enables employees to report in confidence and without fear of retribution any breaches of the Code of Conduct, fraud or any other criminal acts. All employees world-wide may use the the internal whistle-blowing provisions and UK and US employees may alternatively use the external services set up in those areas. All calls received are logged and monitored by the audit and risk committee and appropriate action taken.

The Group requires its operating units to comply with its equal opportunities policy and it does not tolerate harassment in any form. The equal opportunities policy stipulates that operating units throughout the Group must ensure that this procedure is implemented and that there is equal opportunity of employment, retention, promotion and training regardless of race, ethnic or national origin, gender, marital status, age, sexual orientation, religion, trade union membership or disability and that appropriate consideration is given to disabled applicants in terms of employment, taking into account local legislation. Special consideration is given to the training and continuing development of employees who may become disabled whilst in our employment.

Employee engagement

The Group recognises the importance of effective two-way communication in helping keep employees motivated and in maintaining constructive relationships. Business unit management hold face-to-face briefing sessions to keep employees informed of developments across the Group and receive feedback. This communication is supported by a variety of means including the Group newsletter, 'The Aga Times', which is updated online and is distributed regularly to employees. A number of the Group companies have their own newsletters and employees are encouraged to access the Group's websites and the local intranet, where available, and increasingly businesses carry out employee surveys.

The Group has a long-established Human Resources ('HR') Forum in the UK. There are equivalent HR structures in our key businesses in North America and in other European countries. The forums monitor compliance with national regulatory requirements, staff absence and turnover, diversity in the workplace and flexible working practices. Voluntary staff turnover during the year was on average 14% across our retail, service and manufacturing businesses.

Training and development

The Group invests in the capabilities of its employees and encourages them to be fully involved in their development and training. Over 3,000 days of 'off-the-job' training were recorded during the year. During 2007, the Group plans to pilot an international management development programme to help identify leadership talent and to support succession planning across the Group.

Health, safety and environmental

The Group sees environmental and health and safety matters as being of key importance and is committed to the continuous improvement of its performance in these areas to enhance the overall sustainability of its operations, products and services. A summary of our progress during the year is included here and further details will be set out in our 2006 CSR Report.

The Group's environmental and health and safety policies are underpinned by detailed procedures which have been adopted within each of the Group's operations. Business unit managers are responsible for their implementation and for keeping all concerned informed of best practice and the statutory frameworks. Policies and practices are reviewed and updated for changes in legislation and employees are made aware of the policies and their responsibility to ensure that these are effectively applied. The managing director at each business unit is responsible for issues at a local level and reports directly to the chief operating officer on these matters.

The Group's European and North American health, safety and environmental committees meet regularly to review standards, set targets for improvement and to benchmark, leverage and promote best practice. As noted above, the system of CSR audits supports the work of the committees and external consultants are utilised when specific needs arise.

During the year, the Group extended, updated and standardised its processes for gathering health and safety and environmental data. These cover some 97% of the Group measured by sales, up from 85% in 2005. As a result, some comparisons with prior years may no longer be fully valid. Some of the key performance indicators ('KPI') we now focus on going forward were not monitored on a global basis prior to 2006.

Health and safety targets and performance

The Group monitors both lost time and non-lost time accidents, their causes and the total amount of time lost at all operating units and sets annual improvement targets.

Lost time as a percentage of total time worked was reduced from 0.27% to 0.25%, narrowly missing the 2006 target of 0.24%. The Group will continue to focus on improving this further and has set a revised target for 2007 as noted on page 36. In 2006, the Group had planned to target a 5%

KPI	2005	2006	Increase/ (decrease)
Lost Working Time	0.27%	0.25%	(7)%
LTAs/100k hours*	-	2.8	-
Total accidents/100k hrs**	14.0	16.4	17%
Days lost per LTA	-	11.1	-

Lost time accidents (i.e. those resulting in lost time of one or more days not including the day of the accident) per 100,000 hours worked

KPI was not monitored Group wide prior to 2006

Total accidents include lost time and non-lost time accidents (i.e. where the employee returns to work on the day of the accident)

Corporate social responsibility

reduction in total accidents world-wide During the year we decided to record all minor accidents in order to assist with the identification and management of health and safety risks and therefore data was not comparable with prior years Consequently the Group reassessed its targets during this year We monitor accident causes on a consistent global basis now with the most common causes of accidents across the Group being manual handling, cuts and abrasions

Going forward we will focus on the frequency of lost time accidents and the time lost per accident Accordingly, the Group has set new health and safety targets for 2007 as follows

- 12% reduction in lost time accident frequency to 2 5LTAs/ 100k hours,
- 10% reduction in the average time lost per LTA to 10 days

Further details of our 2006 performance and our 2007 targets will be included in our 2006 CSR report

Environmental targets and performance

The Group's environmental impacts cover a range of areas, such as energy use and the resultant climate change related emissions, water consumption, transport, and the waste and recycling arising from our manufacturing processes and general business operations

The Group's energy-related emissions intensity continued to fall during the year, partly as a result of increased awareness of energy costs Water use indexed to sales rose marginally, this was partially due to improved monitoring and measurement of this resource Where individual sites have focussed on water reduction programmes, considerable savings have been achieved A high proportion of the Group's total waste is recycled In 2006, this included over 8,000 tonnes of metal, 1,244 tonnes of wood and over 750 tonnes of cardboard and paper

The Group has implemented a new set of environmental targets for 2007 These targets and the progress in meeting them will be further reported in the annual CSR report with the key features being

- Energy emissions intensity 2 5% reduction in tonnes CO^2 per £m revenue,
- Water use intensity 3% reduction in cubic metres of water per £m revenue,
- Waste intensity 3% reduction in tonnes waste per £m revenue,
- Waste recycling 2% increase in waste recycled

The Group supports the adoption and implementation of environmental management systems at its operating businesses Some fourteen sites have environmental management systems in place, including two which are accredited to ISO 14001 The Group is targeting one further site to achieve ISO 14001 certification in 2007

In addition to its efforts to reduce the environmental impact of its day-to-day activities, the Group also seeks to minimise the risk of environmental pollution incidents If such incidents occur, the Group has in place a policy for prompt corrective action to be taken, and where appropriate provides notification to the regulatory authorities During the year, there were no fines or prosecutions as a result of health and safety or environmental incidents

Sustainability

Following the significant work undertaken by the Group over the last three years in relation to raising energy efficiency standards and to reduce waste in the commercial kitchen, the Group has developed and is launching an Environmental Code The objectives are to set out sector best practice in product and operational terms, to highlight improvements with current technologies, to set timeframes for improvements and to address the key product sectors – refrigeration, ranges, fryers and service – with specific recommendations for each The Group will be presenting the Code to major customers to highlight what they can achieve if they turn their attention to it, to DEFRA and regulatory bodies, so that they have real options and standards available, and to industry bodies and other manufacturers because the sector should challenge itself The Group has calculated that with the Code in place in the UK alone, carbon dioxide emissions can be cut by 20 million tonnes per annum and energy bills cut by £3 billion per annum The Group is calling for the methodology used to support Energy Star and ECA grants to become standard requirements and the gap between burner efficiencies in the domestic and commercial markets to be closed Concerns relating to climate change and the opportunity to improve performance standards is something the Group has been advocating for a number of years and the Group believes that addressing these issues will result in accelerated capital replacement cycles with an emphasis on the types of energy efficient products the Group has invested in Further information on our sustainabilty strategy is shown on pages 82 to 83

Area	KPI	2005	2006	Increase/ (decrease)
Energy emissions intensity*	Tonnes CO^2 per £m revenue**	90	85	(6)%
Water use intensity	Cubic metres of water per £m revenue	289	292	1%
Waste intensity	Tonnes total waste per £m revenue	-	28	-
Waste recycling	% of total waste recycled	-	73%	-

* Includes all energy sources with electricity converted using country specific electricity factors

** Includes inter company revenues

- KPI was not monitored Group-wide prior to 2006

The Group 2006 awards for environmental and CSR

The Group's awards were once again successful in encouraging employees to suggest environmental improvements and improve CSR performance As will be further detailed in our 2006 CSR report the 2006 chairman's environmental award was presented to Aga Rayburn for the significant work undertaken on product development initiatives including Rayburn's 95% efficient gas burners, Aga intelligent management systems and microgeneration projects The 2006 CSR award for the business unit making the most progress in the year was presented to Falcon Foodservice Equipment in recognition of their environmental and health and safety performance improvements, progress towards ISO 14001 and their work with local communities

Customer and product initiatives

The Group continues to increase its emphasis on the development and marketing of products which help customers to enhance their CSR related performance as well as satisfying their business requirements These products address increasing concerns over the use of energy and the emissions in commercial kitchens, as well as improving working conditions for staff The emphasis is also on the manufacturing of equipment to produce 'healthy' food for the quick service restaurant sector and other markets such as in-store bakeries In consumer, the Group is paying close attention to the environmental debate and reviewing how we can upgrade our products to improve efficiency

Supply chain – ethical trading policy

The board recognises the importance of managing its supply chain to ensure, so far as is practicable, that its direct and indirect suppliers adopt the same core principles as the Group The Group monitors quality, design and availability of all sourced components and products, to ensure high standards are maintained The Group introduced an ethical trading policy in 2002 which encompasses a set of global sourcing principles covering fair terms of employment, human rights, health and safety, equal opportunities and good environmental practice All operating companies are required to review supplier compliance with this policy, monitor any areas of non-conformance and take action where appropriate The Group's supplier development programme has been updated to include a more comprehensive monitoring questionnaire to help ensure suppliers conform to standards set by the Group

Customers

The Group's customer service strategy is to respond rapidly to evolving customer demand, to identify and anticipate emerging needs and to continuously improve product availability, quality and value Our quality management systems help ensure that our products meet or exceed customer requirements with thirteen of our manufacturing sites accredited to ISO 9001

Community involvement

Each operating company and its employees are encouraged to become involved with and to support local community projects, educational establishments, charities and other causes This support may be via donations, fundraising or personal time and commitment Our retail businesses have organised events and allowed charities to hold meetings in the Group's outlets Charitable initiatives can include financial and product donations, equipment maintenance and employee involvement Liaison on community issues is encouraged and comments are logged, responded to and reviewed at Group level Further information will be included in the Group's 2006 CSR report

Verification

The Group has instituted a regular review of its CSR policies, and since March 2002 has been advised by CSR Consulting Ltd, who assist the Company in evaluating its current policies and procedures and reinforce the Group's commitment to CSR In addition to the internal CSR audit programme, CSR related risks are included in the Group's risk management process and at present the board does not believe that an overall external CSR audit would be appropriate However, where significant issues are identified the Group utilises external specialists as necessary and those businesses certified to ISO 14001 and other standards are subject to regular external audits

The corporate social responsibility is not subject to audit by Ernst & Young LLP

AGA Foodservice Group

Consolidated income statement

For the year ended 31st December

	Notes	**2006** **£m**	2005 £m
Continuing operations			
Revenue	2 & 3	**528 9**	459 9
Net operating costs	3	**(481 2)**	(418 5)
Group operating profit	2 & 3	**47.7**	41 4
Non-recurring cost	3	**(1.0)**	-
Share of post tax result from associate		**-**	0 1
Profit before net finance costs and income tax		**46 7**	41 5
Finance income	6	**1.3**	2 3
Finance costs	6	**(2.0)**	(1 1)
Profit before income tax		**46.0**	42 7
Income tax expense	7	**(9.0)**	(8 6)
Profit for year from continuing operations		**37.0**	34 1
Discontinued operation			
Post tax (loss) / profit from discontinued operation	8	**(5.9)**	0 3
Profit for year		**31.1**	34 4
Profit attributable to equity shareholders	25	**31.1**	34 0
Profit attributable to minority shareholders	25 & 26	**-**	0 4
Profit for year	25	**31.1**	34 4
Earnings per share – continuing operations	10	**p**	p
Basic		**28 7**	26 4
Diluted		**28 5**	26 3
Earnings per share – total operations	10	**p**	p
Basic		**24 1**	26 6
Diluted		**23 9**	26 5
		p	p
Dividend per share	9	**10 5**	9 2

Notes to the accounts are on pages 42 to 70

Consolidated balance sheet

As at 31st December

	Notes	2006 £m	2005 £m
Non-current assets			
Goodwill	11	**166 0**	154 2
Intangible assets	12	**29 1**	19 1
Property, plant and equipment	13	**85 7**	85 3
Investments in associates	14	**0 3**	0 3
Retirement benefit surplus	5	**29 9**	-
Deferred tax assets	22	**6 5**	11 3
		317 5	270 2
Current assets			
Inventories	15	**94 8**	89 4
Trade and other receivables	16	**93 0**	90 4
Current tax assets	18	**7 2**	0 1
Cash and cash equivalents	19	**43 2**	55 4
		238 2	235 3
Assets held for sale	8	**8 1**	-
Total assets		**563 8**	505 5
Current liabilities			
Borrowings	19	**(2 4)**	(2 1)
Trade and other payables	17	**(115 2)**	(117 5)
Current tax liabilities	18	**(14 4)**	(8 6)
Current provisions	21	**(5.4)**	(5 1)
		(137.4)	(133 3)
Net current assets		**100 8**	102 0
Non-current liabilities			
Borrowings	19	**(51.7)**	(32 9)
Other payables	17	**(1.0)**	(0 8)
Retirement benefit obligation	5	**(5.5)**	(18 2)
Deferred tax liabilities	22	**(14.6)**	(7 6)
Provisions	21	**(10.1)**	(11 7)
		(82.9)	(71 2)
Liabilities held for sale	8	**(8 1)**	-
Total liabilities		**(228 4)**	(204 5)
Net assets		**335.4**	301 0
Shareholders' equity			
Share capital	23	**32.3**	32 1
Share premium account	25	**67.8**	65 8
Other reserves	25	**28.5**	38 3
Retained earnings	25	**204.9**	162 5
Shareholders' equity		**333 5**	298 7
Minority interest in equity	25	**1 9**	2 3
Total equity		**335 4**	301 0

The accounts on pages 38 to 70 were approved by the board of directors on 16th March 2007 and were signed on its behalf by

W B McGrath **Chief Executive**

S M Smith **Finance Director**

Notes to the accounts are on pages 42 to 70

AGA Foodservice Group

Consolidated cash flow statement

For the year ended 31st December

	Notes	2006 £m	2005 £m
Cash flows from operating activities			
Cash generated from operations		**38.3**	37 8
Finance income		**1.3**	2 3
Finance costs		**(1 8)**	(1 0)
Tax (payment) / repayment		**(8 5)**	1 2
Net cash generated from operating activities		**29 3**	40 3
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	28	**(31 8)**	(13 8)
Purchase of property, plant and equipment		**(14.5)**	(10 6)
Expenditure on intangibles		**(4.1)**	(3 2)
Proceeds from disposal of property, plant and equipment and intangibles		**4.6**	0 7
Net cash used in investing activities		**(45.8)**	(26 9)
Cash flows from financing activities			
Dividends paid to shareholders	9	**(12 5)**	(11 3)
Net proceeds from issue of ordinary share capital	23	**2 2**	2 7
Repayment of loan to associated undertaking		**-**	0 3
Repayment of borrowings acquired with acquisitions	28	**(3 0)**	(4 8)
Finance lease repayment		**(1 8)**	(0 4)
Repayment of borrowings		**-**	(3 8)
New bank loans raised		**21 6**	9 1
Net cash used in financing activities		**6.5**	(8 2)
Effects of exchange rate changes		**(2 2)**	0 4
Net (decrease) / increase in cash and cash equivalents		**(12 2)**	5 6
Cash and cash equivalents at beginning of year		**55.4**	49 8
Cash and cash equivalents at end of year	19a	**43.2**	55 4

This statement should be read in conjunction with the reconciliation on page 41

Notes to the accounts are on pages 42 to 70

Consolidated statement of recognised income and expense

For the year ended 31st December

	Notes	2006 £m	2005 £m
Profit for year		**31 1**	34 4
Exchange adjustments on net investments	25	**(9 8)**	5 4
Cash flow hedges		**-**	(0 1)
Actuarial gains / (losses) on defined benefit pension schemes	5	**33 3**	(17 5)
Deferred tax on items taken directly to reserves	22	**(9 9)**	5 3
Net gains / (losses) not recognised in income statement		**13.6**	(6 9)
Total recognised income for year		**44.7**	27 5
Attributable to			
Equity shareholders		**44.7**	27 1
Minority interests		**-**	0 4
Total recognised income for year		**44 7**	27 5

Consolidated cash flow statement – reconciliation

For the year ended 31st December

Reconciliation of operating profit to cash flows from operating activities

	Notes	2006 £m	2005 £m
Operating profit – continuing operations		**47 7**	41 4
(Loss) / profit – discontinued operations	8	**(5 9)**	0 3
Non-recurring cost	3	**(1 0)**	-
Amortisation of intangibles	12	**2 5**	1 9
Fair value adjustment of assets held for sale		**3 0**	-
Depreciation	13	**11.1**	9 8
Profit on disposal of property, plant and equipment		**(2 4)**	(0 2)
Increase in inventories		**(8 6)**	(4 9)
Increase in receivables		**(10 5)**	(4 1)
Increase / (decrease) in payables		**6 1**	(3 0)
Decrease in provisions		**(3.7)**	(3 4)
Cash flows from operating activities		**38 3**	37 8

Notes to the accounts are on pages 42 to 70

Notes to the accounts

1. Accounting policies

Basis of accounting

The Group financial statements presented in this document have been prepared on the basis of all International Financial Reporting Standards ('IFRS'), including International Accounting Standards ('IAS') and interpretations issued by the International Accounting Standards Board ('IASB') and its committees, and as interpreted by any regulatory bodies applicable to the Group published by 31st December 2006 and adopted by the European Union

The preparation of financial statements in accordance with IFRS requires the use of certain accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the year Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates It also requires management to exercise its judgement in the process of applying the Group's accounting policies The key sources of estimation and uncertainty that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are the measurement and impairment of indefinite life intangible assets, including goodwill, the measurement of defined benefit pension obligations and the estimation of share-based payments

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's future accounting periods but which the Group has not early adopted These are set out below

Effective for the Group for the financial year beginning 1st January 2007

- Amendment to IAS 1 'Presentation of Financial Statements - Capital Disclosures',
- IFRS 7 'Financial Instruments Disclosure'

The Group has considered the above standards, interpretations and amendments and concluded that they are either not relevant to the Group or that they would not have a significant impact on the Group's financial statements

A summary of the principal Group IFRS accounting policies is set out below

Basis of consolidation

The consolidated income statement and balance sheet include the accounts of the parent Company and all its subsidiaries made up to the end of the financial year and include the results of subsidiaries and businesses acquired and sold during the year from or up to their effective date of acquisition or sale The Group defines a subsidiary as an entity that the Group has the power to control
All intra-group balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated in full Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred

The consolidated accounts also include the Group's share of post-acquisition earnings and net assets of associates

Business combinations and goodwill

Shares issued as consideration for the acquisition of companies have a fair value attributed to them, which is normally their market value at the date of acquisition Net assets acquired are consolidated at a fair value to the Group at the date of acquisition Changes to those assets and liabilities, and the resulting gains and losses that arise after the Group has gained control of the subsidiary, are credited and charged to the post-acquisition income statement or the statement of recognised income and expense, where appropriate On the acquisition of minority interests the difference between the cost and the minority interest is taken to goodwill

Goodwill arising on acquisitions prior to 1998 was written off to reserves From 1998, goodwill, being the difference between the fair value of the purchase consideration and the fair value of the assets acquired, was capitalised in the balance sheet as goodwill and until 31st December 2003 was amortised on a straight line basis over its estimated useful life, not exceeding 20 years Under IFRS 3 'Business Combinations' the amortisation of goodwill ceased from 1st January 2004 and is subject to an impairment review annually When there are indications that the carrying value may not be recoverable an impairment loss is recognised in the income statement for the amount by which the asset's carrying value exceeds its recoverable amount The recoverable amount is the higher of an asset's fair value less costs to sell and its discounted value in use For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows The carrying amount of goodwill allocated to a cash-generating unit is taken into account when determining the gain or loss on disposal of a unit Goodwill arising on acquisitions to 1998 remains set off directly against reserves even if the related investment becomes impaired or the business is disposed of

For goodwill, future cash flows are estimated based on budgeted trading cash flows (for the relevant cash generating unit) for the next two years and 2% growth thereafter (representing inflation only) Future cash flows are discounted at the relevant weighted average cost of capital applicable For 2006 testing this was 7 65%

Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments Other operating income, expenses, assets and liabilities are allocated based on revenues

Based on the risks and returns of the Group's products and

1. Accounting policies (continued)

Segmental reporting (continued)

services the directors consider that the primary reporting format is by business segment and the secondary reporting format is geographical The business segments have been chosen on the basis of the internal management structure and system of reporting to the board of directors

Revenue recognition

Revenue, which excludes value added tax and intra-group revenue, principally represents the invoiced value of goods sold and also services rendered and short-term maintenance contracts Appropriate provisions for returns, trade discounts and other allowances are deducted from revenue as appropriate The Group has no barter transactions Under IAS 18 'Revenue' the Group's revenue has been recognised when performance has occurred and a right to consideration has been obtained

Post retirement benefits

The Group's major pension plans are of a defined benefit type Under IAS 19 'Employee Benefits' the employer's portion of the current service costs, settlement gains and curtailment gains are charged to operating profit, with the interest cost net of the expected return on assets in the plans also being credited to operating profit When a settlement or a curtailment occurs the obligation and plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs Actuarial gains and losses are recognised directly in equity, in the statement of recognised income and expenditure, and the balance sheet reflects the schemes' surplus or deficit at the balance sheet date The determination of the present value of obligations and plan assets is done with sufficient regularity that the amounts do not differ from the amounts determined at the balance sheet date A full valuation is carried out triennially using the projected unit credit method – the 2005 valuation of the Group's main scheme has been approved by the trustee

The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid in the year

The defined benefit pension asset or liability in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation, using a discount rate based on high quality corporate bonds, less any past service cost not recognised and less the fair value of plan assets out of which the obligations are to be settled directly Fair value is based on market price information and in the case of quoted securities is the published bid price Measurement of defined benefit obligations requires estimation of future changes in salaries and inflation, as well as mortality rates, the expected return on assets and the selection of a suitable discount rate

Payments to defined contribution schemes are charged to the income statement as they become payable

Intangible assets

Expenditure relating to clearly defined and identifiable development projects is recognised as an intangible asset only after the following criteria are met the project's technical feasibility and commercial viability can be demonstrated, the availability of adequate technical and financial resources and an intention to complete the project have been confirmed and the correlation between development costs and future revenues has been established The development costs are then amortised on a straight line basis over the life of the project, limited to a maximum of five years, following the commencement of its commercial production Development expenditure that has not been brought into use is also reviewed for impairment on an annual basis All other research and development expenditure is written off in the year in which it is incurred

Computer software licences acquired, costs associated with the developing of software products and software that is not integral to a related item of hardware, are recognised as intangible assets and are amortised over their useful lives, which is limited to a maximum of five years

Separable intangible assets, after 1st January 2004, the date of transition to IFRS, such as trademarks, licences and brands, are recognised separately from goodwill on all acquisitions after the date of transition which are carried at cost less accumulated amortisation and are amortised over their estimated useful life Brands identified in certain business combinations have been assessed as having an indefinite useful life In reaching this assessment, account was made of their market-leading position in niche markets, premium image, length of history and unchanging fashion These factors are coupled with continuing marketing spend to maintain the brand

These brands are assessed for impairment on an annual basis or sooner where there is an indication of impairment The carrying values are assessed by reference to the net present values of forecast future cash flows For brands the Royalty Relief Methodology is used to forecast future cash flows This is based on the notion of what an independent third party would need to pay a brand owner in order to use that brand name in a particular marketplace or defined territory Cash flows are estimated using an imputed royalty rate applied to budgeted revenue for the next two years and 2% growth thereafter (representing inflation only)

Future cash flows are discounted at the relevant weighted average cost of capital applicable to that particular intangible asset For 2006 testing, these were in the range of 7 5% to 8 5% Imputed royalty rates used in the cash flow forecasts for brands are in the range of 2 9% to 3 5% These are based on a study by external experts of royalty rates for in-house brands which came out in the range 2% to 5%

Notes to the accounts

1. Accounting policies (continued)

Intangible assets (continued)

Development costs generally arise from internal development whist brands are acquired separately

Property, plant and equipment

Under IAS 16 'Property, Plant and Equipment' assets are held at cost less accumulated depreciation Assets held at 1st January 2004, the date of transition, are held at deemed cost Depreciation is provided on property, plant and equipment, other than freehold land and assets in the course of construction, at rates calculated to write off the cost of each asset on a straight line basis down to its residual value as follows

i Freehold buildings over 50 years

ii Leasehold buildings over 50 years or the period of the lease whichever is less

iii Plant and equipment over a period of 3 to 12½ years

The Group annually reviews the assessment of residual values and useful lives in accordance with IAS 16 The carrying value of property, plant and equipment is reviewed for impairment if there are indicators that the carrying value amount may not be recoverable

Leases

Under IAS 17 'Leases', assets, held under leases and hire purchase contracts, where the Group has substantially all the risks and rewards of ownership, are capitalised as owned property, plant and equipment and the obligations relating thereto, excluding finance charges, are included in borrowings Finance costs are charged to the income statement over the contract term to give a constant rate of interest on the outstanding balance Finance lease assets held as property, plant and equipment are depreciated over the shorter of the asset's expected useful life and the lease term

Payments in respect of operating leases, net of any incentives received, are charged in arriving at the operating profit on a straight line basis over the period of the lease Assets leased to third parties under operating leases (principally land and buildings) are held as tangible fixed assets and depreciated over their expected useful life in line with the depreciation policy Rental income (net of any incentives given) from leased assets is credited to the income statement on a straight line basis over the lease term

The Group treats sale and operating leasebacks as disposals and any profit or loss on the transaction is recognised at the time of the sale

Inventories

In accordance with IAS 2 'Inventories' the Group's inventories are valued at the lower of cost on a first in first out basis and net realisable value Cost includes a proportion of production overheads based on normal levels of activity Provision is made for obsolete and slow moving items

Borrowings

Obligations for loans and borrowings are recognised when the Group becomes party to the related contracts and are measured initially at fair value less directly attributable transaction costs After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively in finance revenue and finance cost

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability at the balance sheet date

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date All differences are taken to the income statement, except when hedge accounting is applied and for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation These are taken directly to equity until the disposal of the net investment, at which time they are recognised as a profit or loss

The assets and liabilities of foreign operations are translated into sterling at the rate of exchange ruling at the balance sheet date Income and expenses are translated at the average exchange rate for the month in which they arise The main foreign currencies used are US dollars and euros The year end rate of exchange used for the euro was 1 48 and for the US dollar was 1 96 and the average rates were 1 47 and 1 84, respectively The resulting exchange differences are taken directly to a separate component of equity On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions Non-monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined

Financial assets

Financial assets are recognised when the Group becomes party to the contracts that give rise to them and are classified as financial assets at fair value through the income statement, loans and receivables, held-to-maturity

1. Accounting policies (continued)

Financial assets (continued)

investments, or as available-for-sale financial assets, under the requirements of IAS 39

Derivative financial instruments are classified as held for trading unless they are designated as hedging instruments Assets are carried in the balance sheet at fair value with gains or losses recognised in the income statement

Derivative financial instruments and hedging

Where appropriate, the Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations The Group does not hold or issue derivative financial instruments for speculative purposes

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles The fair value of interest rate swap contracts is determined by reference to market values for similar instruments

Where the criteria are met for hedge accounting, it is applied to the forward foreign currency contracts put in place to reduce exposure to currency denominated sales and purchases

Where the criteria for hedge accounting are not met, or the Group elects not to hedge account, gains and losses on the fair value of forward contracts are taken to the income statement as they arise

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is documented at its inception This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration Such hedges are expected to be highly effective at inception

For the purpose of hedge accounting, a hedge is classified as

- a fair value hedge, i e a hedge of the fair value of an asset or a liability,
- a cash flow hedge, i e a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction,
- a hedge of a net investment in a foreign entity

Fair value hedges

Changes in the fair value of derivative instruments that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk

Cash flow hedges

Changes in the fair value of derivative instruments designated as cash flow hedges such as forward currency contracts are recognised in equity, to the extent that the hedges are effective Any ineffective portion is recognised as a profit or loss Amounts deferred in equity are released when the forecast hedged transaction impacts profit and loss

Hedge of net investments in foreign entities

The Group hedges net investments in foreign entities primarily through currency borrowings Any gains or losses on the translation of the borrowings are recognised in equity As the hedge relationship is expected to remain highly effective, the accounting treatment will be applied on an ongoing basis until the Group revokes the designation or the investment is disposed of

Current and deferred tax

Current tax assets and liabilities are measured at the amounts expected to be recovered from or paid to the tax authorities, based on tax rates and laws that are enacted or substantively measured at amortised cost using the effective interest rate method

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements However, the deferred income tax is not accounted for, if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future

At 31st December 2006, the Group has not provided deferred tax in relation to temporary differences associated with undistributed earnings of subsidiaries Quantifying the temporary differences is not practical However, based on current enacted law and on the basis that the Group is in a position to control the timing and realisation of these temporary differences, no material tax consequences are expected to arise

Notes to the accounts

1. Accounting policies (continued)

Employee share options

IFRS 2 'Share-based Payments' requires that an expense for equity instruments granted is recognised in the financial statements based on its fair value at the date of grant This expense, which is primarily in relation to employee share options and executive LTIP schemes, is recognised over the vesting period of the schemes - the Group has principally adopted the Black Scholes model and a TSR Pricing model, respectively, for the purposes of computing fair value under IFRS The measurement of this expense is calculated only on options granted after 7th November 2002

The estimated cost of share-based payments requires the selection of an appropriate valuation model, consideration as to the inputs necessary for the valuation model chosen and the estimation of the number of awards that will ultimately vest, inputs for which arise from judgements relating to the probability of meeting non-market performance conditions and the continuing participation of employees

Any awards that do not ultimately vest are lapsed

Dividends

The final dividend is only recognised at the point it is declared and approved by the shareholders at the Annual General Meeting Interim dividends are recognised on payment

Provisions

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation

Provision is made for the estimated liability on all products still under warranty Product warranties of between one and three years are given, where appropriate, by individual businesses in the Group Following the disposal programme of previous years certain vacant properties located in the UK remain with the Group Full provision has been made for the residual onerous lease commitments, together with other outgoings, for the remaining period of the leases The Group's other provisions relate to the remaining costs in respect of the disposal of Pipe Systems, including probable warranty and indemnity claims, other claims and other costs from third parties in relation to divested businesses Provisions are not discounted where the effect is not material

Investments

Investments are included at cost

Non-recurring costs

The Group presents as non-recurring items on the face of the income statement, those items of income and expense which, because of the non-recurring nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance

Assets and liabilities in disposal groups held for sale

After initial recognition, financial assets and liabilities held for sale are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement

2. Segmental analysis

By primary segment - business group	2006 Revenue £m	2006 Operating profit £m	2006 Segment assets £m	2006 Segment liabilities £m	2005 Revenue £m	2005 Operating profit £m	2005 Segment assets £m	2005 Segment liabilities £m
UK & European Consumer	**243.1**	**25 1**	**192.3**	**62.3**	215 2	23 0	167 5	63 4
US Consumer	**35 5**	**1.4**	**32.0**	**6 5**	27 7	2 0	31 5	6 1
UK & European Foodservice	**194 8**	**18 0**	**208.5**	**50.8**	172 8	14 0	182 4	56 9
US Foodservice	**55.5**	**3 2**	**65.7**	**12.1**	44 2	2 4	42 9	9 4
Total continuing operations	**528.9**	**47 7**	**498.5**	**131 7**	459 9	41 4	424 3	135 8
Discontinued operations	**38.8**	**(5 9)**	**8 1**	**8 1**	41 9	0 3	14 1	10 0
Non-recurring cost	-	**(1 0)**	-	-	-	-	-	-
Share of result of associate	-	-	-	-	-	0 1	-	-
Finance income	-	**1 3**	-	-	-	2 3	-	-
Finance costs	-	**(2 0)**	-	-	-	(1 1)	-	-
Total	**567 7**	**40 1**	**506.6**	**139.8**	501 8	43 0	438 4	145 8
Provision for businesses sold	-	-	-	**5.5**	-	-	-	7 5
Tax	-	**(9.0)**	**13.7**	**29.0**	-	(8 6)	11 4	16 2
Investments	-	-	**0.3**	-	-	-	0 3	-
Cash / borrowings	-	-	**43.2**	**54.1**	-	-	55 4	35 0
Total	**567 7**	**31 1**	**563.8**	**228.4**	501 8	34 4	505 5	204 5

An analysis of net assets by category of asset is given on page 72

There are four main segments, as shown above UK & European Consumer includes the Aga, Rangemaster, Fired Earth, Waterford Stanley and Grange brands operating mainly in the UK and Europe The US Consumer segment includes the Aga Ranges, Heartland and Marvel brands and operates mainly in North America The UK & European Foodservice segment includes the Falcon, Millers Vanguard, Mono and Williams brands operating mainly in the UK and Bongard, Eloma and Pavailler operating in Europe US Foodservice includes the Adamatic, Amana, Belshaw and Victory brands operating mainly in North America All segments have similar customer bases, bringing together operations selling into particular markets and working together to optimise sales in those markets The discontinued operation relates to the soft furnishings line of business at Domain

Revenue between UK & European Consumer and US Consumer was £6 3m (2005 £2 7m) Revenue between other business groups whilst growing is not material Segment assets include property, plant and equipment, intangibles, inventories and receivables Segment liabilities comprise operating payables, retirement obligations and provisions Cash, borrowings and taxation are not included in the segments Other external charges and income relating to corporate companies are apportioned to the UK segments based on revenue

Other segmental information

By primary segment - business group	2006 Goodwill £m	2006 Capital expenditure £m	2006 Depreciation £m	2006 Amortisation of intangibles £m	2005 Goodwill £m	2005 Capital expenditure £m	2005 Depreciation £m	2005 Amortisation of intangibles £m
UK & European Consumer	**41.1**	**11 6**	**6 5**	**1 3**	40 4	7 3	5 7	1 0
US Consumer	**15 3**	**2.6**	**0.5**	**0 1**	17 2	1 5	0 3	0 1
UK & European Foodservice	**74.2**	**3 0**	**2 5**	**1.0**	73 0	3 2	2 3	0 7
US Foodservice	**35.4**	**0.8**	**0 7**	**0 1**	23 6	0 6	0 6	0 1
Total continuing operations	**166.0**	**18.0**	**10.2**	**2 5**	154 2	12 6	8 9	1 9
Discontinued operations	-	**0.6**	**0.9**	-	-	1 2	0 9	-
Total	**166.0**	**18 6**	**11 1**	**2 5**	154 2	13 8	9 8	1 9

Notes to the accounts

2. Segmental analysis (continued)

By secondary segment – geographical origin	2006 Revenue £m	2006 Segment assets £m	2006 Capital expenditure £m	2005 Revenue £m	2005 Segment assets £m	2005 Capital expenditure £m
United Kingdom	**274 9**	**258 3**	**8 4**	267 5	225 3	8 7
North America	**93.1**	**99 7**	**3.4**	71 5	72 7	2 2
Europe	**147 2**	**132 3**	**6 2**	113 4	119 0	1 7
Rest of World	**13.7**	**8 2**	**-**	7 5	7 3	-
Total continuing operations	**528.9**	**498 5**	**18 0**	459 9	424 3	12 6
Discontinued operations	**38.8**	**8 1**	**0.6**	41 9	14 1	1 2
Tax	**-**	**13 7**	**-**	-	11 4	-
Investments	**-**	**0 3**	**-**	-	0 3	-
Cash	**-**	**43.2**	**-**	-	55 4	-
Total	**567.7**	**563 8**	**18.6**	501 8	505 5	13 8

Revenue by geographical destination	2006 £m	2006 %	2005 £m	2005 %
United Kingdom	**260 3**	**45 9**	254 1	50 6
North America	**98.8**	**17.4**	76 2	15 2
Europe	**142 1**	**25 0**	106 4	21 2
Rest of World	**27 7**	**4.9**	23 2	4 7
Total continuing operations	**528 9**	**93.2**	459 9	91 7
Discontinued operations	**38 8**	**6.8**	41 9	8 3
Total operations	**567 7**	**100 0**	501 8	100 0

3. Net operating costs

	2006 £m	2005 £m
Continuing operations		
Revenue	**528.9**	459 9
Less operating profit	**(47 7)**	(41 4)
Net operating costs	**481.2**	418 5

	2006 £m	2005 £m
Net operating costs		
Raw materials and consumables	**212.4**	184 7
Staff costs (note 4)	**149.8**	136 8
Other operating charges	**85 4**	72 1
Change in inventories of finished goods and work in progress	**(2.6)**	(5 6)
Other operating income	**(9.0)**	(8 2)
Other external charges	**32.5**	27 9
Amortisation of intangibles	**2.5**	1 9
Depreciation of property, plant and equipment	**10 2**	8 9
Net operating costs	**481.2**	418 5

Included in other operating income are items in respect of property, legal settlements and insurance claims

3. Net operating costs (continued)

Net continuing operating costs include the following

	2006 £m	2005 £m
Profit on disposal of property, plant and equipment	**(2.6)**	(0 2)
Trade receivables impairment	**(0.1)**	0 3
Reversal of inventory write down made in previous year (note 15)	**(0.5)**	(1 1)
Inventory provisions charged in the year (note 15)	**1 8**	1 2
Research and development expenditure and amortisation	**3.5**	3 0
Depreciation of property, plant and equipment·		
- owned assets	**10 1**	8 7
- under finance lease	**0.1**	0 2
Amortisation of intangibles	**2 5**	1 9
Operating lease rentals payable		
- plant and machinery	**2.9**	2 9
- property	**8.0**	7 3
Net exchange differences	**0.1**	0 1
Auditors' remuneration (2006 Ernst & Young, 2005 PricewaterhouseCoopers)		
- statutory audit services provided by primary auditors	**0.4**	0 5
- other services provided by primary auditors	**0.5**	0 4
(includes £0 3m for tax compliance services and £0 2m for due diligence)		
- pension scheme audit fees	**-**	0 1
Other services received from other professional accountants		
(includes £0 1m for tax compliance services, £0 3m for due diligence, £0 2m for advisory services and £0 1m for pensions work)	**0.7**	0 7

Non-recurring cost

The £1 0m non-recurring cost in 2006 related to professional fees incurred in respect of the aborted acquisition of Enodis, the tax impact of this was £0 3m

4. Employee information

Average number of employees (including directors)	**2006**	2005
UK & European Consumer	**2,650**	2,416
US Consumer	**391**	284
UK & European Foodservice	**2,241**	2,213
US Foodservice	**449**	439
Total continuing operations	**5,731**	5,352
Discontinued	**281**	289
Total	**6,012**	5,641

Staff costs (including directors)	**£m**	£m
Wages and salaries	**133.2**	120 3
Social security costs	**18 6**	17 2
Share based payments	**0 4**	0 4
Other pension costs	**(2.4)**	(1 1)
Total continuing operations	**149.8**	136 8
Discontinued	**9.6**	9 5
Total	**159.4**	146 3

Details of directors' compensation, share options, Long-Term Incentive Plans and pensions are set out in the remuneration report on pages 29 to 33

Notes to the accounts

5. Pensions

The Group operates a pension scheme which covers the majority of United Kingdom employees Membership on a defined benefit basis was closed in 2001 but the scheme remains open to new entrants on a defined contribution basis The assets are held in trust funds separate from the Group's assets although they are included in the Group's balance sheet Other defined benefit schemes operated within the Group are the Mono Equipment Limited Pension and Life Assurance Scheme, the Amari plc Pension and Life Assurance Plan and various overseas arrangements Various defined contribution schemes exist across the Group and the total contributions in the year were £1 4m (2005 £0 4m) included in staff costs, in note 4 The latest full valuation of the main United Kingdom scheme was carried out by Watson Wyatt Limited, independent consulting actuaries, as at 31st December 2005 using the projected unit credit method Group defined benefit scheme contributions of £4 8m (2005 £4 9m) based on pensionable salaries and an additional contribution of £1 0m were made during the year ended 31st December 2006 Company contributions of £0 4m (2005 £0 4m) were owed to the schemes at 31st December 2006 Contributions for 2007 under the main UK scheme will be 13 9% (2006 12 8%) for all members accruing benefits on a final salary basis with the exception of members of the former 1970 scheme and 27 4% (2006 32 8%) for members of the former 1970 scheme Company contributions of around £9 5m are expected to be paid to this scheme during 2007 and include a further £4 5m of additional contributions

The financial assumptions used to calculate the defined benefit schemes' liabilities under IAS 19 were

	UK schemes 2006	**European schemes 2006**	UK schemes 2005	European schemes 2005
Rate of increase in pensionable salaries	**3.9%**	**3 0 - 4.0%**	4 0%	3 0 - 4 0%
Rate of increase of pensions in payment	**2.25 - 3.3%**	**-**	2 25 - 3 2%	-
Discount rate	**5.2%**	**4.0 - 4.3%**	4 8%	3 8 - 4 4%
Inflation rate	**2.9%**	**2.0%**	2 5%	2 0 - 2 5%
Expected rate of return on schemes' assets	**6 25%**	**4.5%**	6 0%	5 4%

The overall expected rate of return on assets is the average of the best estimate for the expected long-term rate of return for each of the major asset classes weighted according to the percentage allocation of the aggregated assets to each of the asset classes at the reporting date

The demographic assumptions used include rates for mortality which, for example, generally lead to an average projected life expectancy of 17 9 years for male members currently aged 65 and of 19 1 years from age 65 for male members currently aged 50 The comparable projections under IAS 19 as at 31st December 2005, after taking account of a difference in methodology as at the comparative date, were effectively 17 1 years and 18 1 years respectively

The assets and obligations of the aggregated schemes

	2006 £m	2005 £m
Equities	**343 3**	334 5
Bonds	**290 7**	314 0
Property	**130 6**	66 9
Other	**20 0**	35 2
Fair value of schemes' assets	**784 6**	750 6
Present value of funded obligation	**(760 2)**	(768 8)
Surplus / (deficit) in the schemes	**24 4**	(18 2)
Balance sheet presentation		
Retirement benefit surplus	**29 9**	-
Retirement benefit obligations	**(5.5)**	(18 2)
Surplus / (deficit) in the schemes	**24 4**	(18 2)

Included above are assets with a market value of £4 8m (2005 £4 3m) and a deficit of £2 7m (2005 £3 3m) in respect of overseas schemes The foreign exchange impact on the overseas schemes is not significant The impact on the deficit in the overseas schemes of the Eloma acquisition is £0 3m

The pension schemes have not invested in any of the Group's own financial instruments nor in properties or other assets used by the Group

5. Pensions (continued)

The amounts recognised in the income statement are as follows	2006 £m	2005 £m
Current service cost	**6 9**	6 5
Curtailment gain	**(1 3)**	(1 6)
Settlement gain	**(1 0)**	-
Expected return on pension schemes' assets	**(44 4)**	(41 9)
Interest cost on pension schemes' liabilities	**36.0**	35 5
Total included in staff costs (note 4)	**(3 8)**	(1 5)

The settlement gain relates to a bulk transfer payment from the Amari scheme and the curtailment gain relates to an extension in the application of a cap under the main UK scheme on increases in pensionable salary

History of experience gains and losses:	2006 £m	2005 £m	2004 £m
Fair value of schemes' assets	**784 6**	750 6	674 0
Present value of funded obligation	**(760 2)**	(768 8)	(680 6)
Surplus / (deficit) in the schemes	**24 4**	(18 2)	(6 6)
Experience gain / (loss) on schemes' liabilities	**2.4**	(7 8)	14 1
Experience gain on schemes' assets	**14.6**	57 2	21 0

Movement in (surplus) / deficit of the aggregated schemes during the year	2006 £m	2005 £m
Deficit of the schemes at the beginning of the year	**(18 2)**	(6 6)
Total income as above	**3 8**	1 5
Company contributions	**5 8**	4 9
Acquisitions (note 28)	**(0 3)**	(0 5)
Actuarial gain / (loss)	**33 3**	(17 5)
Surplus / (deficit) of the schemes at the end of the year	**24 4**	(18 2)

The cumulative amount recognised in the statement of recognised income and expense since 1st January 2004 is £34 0m (2005 £0 7m) and the amount recognised in the year was £33 3m (2005 £17 5m)

Changes in the present value of defined benefit obligation are as follows:	2006 £m	2005 £m
Present value of obligation at the beginning of the year	**768 8**	680 6
Interest costs	**36.0**	35 5
Current service cost	**6.9**	6 5
Member contributions	**1.1**	1 3
Benefit payments	**(32.4)**	(31 3)
Settlements / curtailments	**(2.3)**	(1 6)
Acquisitions	**0.8**	3 1
(Reduction) / increase on change of actuarial assumptions	**(16.3)**	66 9
Experience (gain) / loss	**(2 4)**	7 8
Present value of obligations at the end of the year	**760 2**	768 8

Changes in the fair value of schemes' assets are as follows:	2006 £m	2005 £m
Fair value of schemes' assets at the beginning of the year	**750 6**	674 0
Benefit payments	**(32.4)**	(31 3)
Company contributions	**5.8**	4 9
Member contributions	**1.1**	1 3
Expected return on schemes' assets	**44.4**	41 9
Experience gain	**14.6**	57 2
Acquisitions	**0.5**	2 6
Fair value of schemes' assets at the end of the year	**784 6**	750 6

The actual return on scheme assets was £59 0m (2005 £99 1m)

Notes to the accounts

6. Finance costs – net

	2006	2005
	£m	£m
Bank interest	**(1 3)**	(1 3)
Interest on repayment of tax	**-**	(1 0)
Total finance income	**(1 3)**	(2 3)
Finance costs	**£m**	£m
Bank borrowings	**1 8**	1 0
Other borrowings	**0 2**	0 1
Total finance costs	**2.0**	1 1
Net finance costs / (income)	**0 7**	(1 2)

7. Income tax

	2006	2005
United Kingdom corporation tax based on a rate of 30% (2005 30%)	**£m**	£m
Current tax on income for year	**2.4**	4 2
Adjustments in respect of prior years	**0.7**	(1 6)
United Kingdom corporation tax	**3.1**	2 6
Overseas current tax on income for year	**4.3**	3 9
Total current tax	**7.4**	6 5
United Kingdom deferred tax charge in year	**2.2**	2 9
Overseas deferred tax credit in year	**(0.6)**	(0 8)
Total deferred tax (note 22)	**1.6**	2 1
Total United Kingdom tax	**5.3**	5 5
Total overseas tax	**3.7**	3 1
Total income tax	**9.0**	8 6

Deferred tax of £9 9m was charged (2005 £5 3m credited) to equity in respect of the actuarial gain / loss, respectively
The total tax assessed for the year is lower than the standard rate of corporation tax in the UK as explained below

	2006	2005
	£m	£m
Profit from continuing operations before taxation	**46.0**	42 7
(Loss) / profit from discontinued operations	**(5 9)**	0 3
Profit before income tax	**40.1**	43 0
Profit multiplied by the standard rate of corporation tax in the UK of 30% (2005 30%)	**12.0**	12 9
Effects of		
- non-taxable income	**(0 9)**	(1 5)
- non-deductible expenses	**1.1**	0 5
- adjustment to tax charge in respect of prior years	**0.7**	(1 6)
- lower rates of tax on overseas earnings	**(3.9)**	(1 7)
Total tax charge for the year	**9.0**	8 6

8. Discontinued operation

In December the board decided to undertake a review of the strategic options open to it and has announced its decision to discontinue the operations of Domain Inc which previously formed part of the US Consumer business segment Domain had been operating in the soft furnishings market which is no longer considered to be core to Group strategy The disposal is expected to occur within the next twelve months

The results of Domain are presented below

	2006 **£m**	2005 £m
Revenue	**38.8**	41 9
Operating costs	**(41.5)**	(41 6)
Operating (loss) / profit	**(2 7)**	0 3
Finance costs	**(0.2)**	-
Loss recognised on remeasurement to fair value	**(3.0)**	-
Post tax (loss) / profit from discontinued operation	**(5.9)**	0 3

The major classes of assets of Domain were as follows	**Fair value 31st December 2006**
Assets	**£m**
Intangibles	-
Property, plant and equipment	**0.6**
Inventories	**6.6**
Receivables	**0.9**
Assets held for sale	**8 1**
The major classes of liabilities of Domain were as follows	
Liabilities	
Payables	**8 1**
Liabilities held for sale	**8 1**
Net assets held for sale	**-**

The operating cash inflow was nil (2005 £1 3m), the investing cash outflow was £0 6m (2005 £1 2m) and the total cash outflow was £0 6m (2005 £0 1m inflow)

9. Dividends

	2006 **£m**	2005 £m
Final paid of 6 2p per share for the year ended 31st December 2005 (2004 5 8p)	**8.0**	7 4
Interim paid of 3 5p per share (2005 3 0p)	**4.5**	3 9
Amounts recognised as distributions to equity shareholders in the year	**12.5**	11 3

The directors are proposing a final ordinary dividend in respect of the financial year ending 31st December 2006 of 7 0p (2005 6 2p) which will represent a £9 0m reduction to shareholders' equity This has not been included in the balance sheet as a liability as it has not been approved by the shareholders It will be paid on 1st June 2007 to shareholders who are on the register of members on 27th April 2007

Notes to the accounts

10. Earnings per share

The basic earnings per share for total operations is calculated by dividing the earnings attributable to equity shareholders of the parent by the weighted average number of ordinary shares outstanding during the year

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares The Group has two classes of dilutive potential shares – the share options granted to employees and the Long-Term Incentive Plan

The earnings and weighted average number of shares are set out below

	2006	2005
Earnings for the purpose of the basic and diluted EPS	**£m**	£m
Profit after tax from continuing operations	**37.0**	34 1
Minority interests	-	(0 4)
Earnings – for basic and diluted EPS	**37 0**	33 7
(Loss) / profit from discontinued operations	**(5 9)**	0 3
Profit attributable to equity shareholders of the parent	**31 1**	34 0

Weighted average number of shares in issue	**million**	million
For basic EPS calculation	**128 9**	127 6
Dilutive effect of share options and Long-Term Incentive Plans	**1 1**	0 8
For diluted EPS calculation	**130 0**	128 4

Earnings per share		
Continuing operations	**p**	p
Basic	**28.7**	26 4
Diluted	**28.5**	26 3
Discontinued operations	**p**	p
Basic	**(4 6)**	0 2
Diluted	**(4 6)**	0 2
Total operations	**p**	p
Basic	**24 1**	26 6
Diluted	**23 9**	26 5

11. Goodwill

	2006 £m	2005 £m
At 1st January	**154 2**	137 4
Exchange adjustment	**(6.2)**	3 3
Arising from acquisitions in the year (note 28)	**16.9**	13 0
Arising from adjustment to prior year acquisitions (note 28)	**1.1**	0 5
At 31st December	**166 0**	154 2

12. Intangible assets

	Computer software £m	Brands £m	Development costs £m	Other £m	Total £m
Cost					
At 1st January 2006	4 4	10 5	9 2	0 4	**24 5**
Exchange adjustment	(0 1)	(0 4)	(0 2)	-	**(0 7)**
Additions	0 7	0 6	2 8	-	**4 1**
Arising from acquisitions in the year (note 28)	0 2	9 2	-	0 1	**9 5**
Reclassification	0 2	(0 2)	-	-	**-**
Disposals	-	(0 2)	(0 1)	-	**(0 3)**
At 31st December 2006	5 4	19 5	11 7	0 5	**37.1**
Amortisation					
At 1st January 2006	3 0	-	2 4	-	**5.4**
Exchange adjustment	(0 1)	-	-	-	**(0.1)**
Arising from acquisitions in the year (note 28)	0 1	-	-	0 1	**0.2**
Disposals	-	-	(0 1)	-	**(0.1)**
Reclassification	0 2	(0 2)	-	-	**-**
Charge for the year	0 6	-	1 8	0 1	**2.5**
Impairment	0 1	-	-	-	**0.1**
At 31st December 2006	3 9	(0 2)	4 1	0 2	**8.0**
Net book value at 31st December 2006	**1.5**	**19 7**	**7 6**	**0.3**	**29.1**

	Computer software £m	Brands £m	Development costs £m	Other £m	Total £m
Cost					
At 1st January 2005	4 1	1 7	6 7	-	12 5
Exchange adjustment	-	0 1	-	-	0 1
Additions	0 4	-	2 7	0 1	3 2
Arising from acquisitions in the year	-	8 7	-	0 3	9 0
Disposals	(0 1)	-	(0 2)	-	(0 3)
At 31st December 2005	4 4	10 5	9 2	0 4	24 5
Amortisation					
At 1st January 2005	2 7	-	1 0	-	3 7
Disposals	(0 1)	-	(0 1)	-	(0 2)
Charge for the year	0 4	-	1 5	-	1 9
At 31st December 2005	3 0	-	2 4	-	5 4
Net book value at 31st December 2005	1 4	10 5	6 8	0 4	19 1

Amortisation charges have been charged directly to the income statement

Brands acquired relate to Amana and Eloma and brand additions relate to Grange Other items include patents and customer lists acquired Brands have an indefinite life

Notes to the accounts

13. Property, plant and equipment

	Freehold and long leasehold land and buildings £m	Plant, machinery and equipment £m	Assets in course of construction £m	Total £m
Cost				
At 1st January 2006	53 5	112 3	1 9	**167.7**
Exchange adjustment	(1 0)	(2 3)	-	**(3 3)**
Arising from acquisitions in the year (note 28)	3 9	5 0	-	**8 9**
Capital expenditure	4 4	8 6	1 5	**14 5**
Disposals	(2 4)	(3 1)	-	**(5.5)**
Reclassification	2 1	(0 8)	(1 4)	**(0 1)**
At 31st December 2006	60 5	119 7	2 0	**182.2**
Depreciation				
At 1st January 2006	13 8	68 6	-	**82 4**
Exchange adjustment	(0 5)	(1 4)	-	**(1 9)**
Arising from acquisitions in the year (note 28)	1 6	3 4	-	**5 0**
Impairment of assets	2 4	0 3	0 2	**2 9**
Transfer to assets held for sale (note 8)	-	0 6	-	**0 6**
Charge for the year	2 0	9 1	-	**11 1**
Disposals	(0 8)	(2 7)	-	**(3.5)**
Reclassification	(0 1)	-	-	**(0.1)**
At 31st December 2006	18 4	77 9	0 2	**96.5**
Net book value at 31st December 2006	**42.1**	**41 8**	**1.8**	**85.7**

The cost of property, plant and equipment includes £1 3m (2005 £2 9m) of assets held under finance leases, the net book value of these assets was £0 2m (2005 £1 8m) All leases have been reviewed throughout the year and are capitalised where appropriate

	Freehold and long leasehold land and buildings £m	Plant, machinery and equipment £m	Assets in course of construction £m	Total £m
Cost				
At 1st January 2005	47 9	86 4	1 4	135 7
Exchange adjustment	0 3	1 3	-	1 6
Arising from acquisitions in the year	4 4	17 1	(0 1)	21 4
Capital expenditure	1 2	8 1	1 3	10 6
Disposals	(0 5)	(2 2)	0 1	(2 6)
Reclassification	0 2	1 6	(0 8)	1 0
At 31st December 2005	53 5	112 3	1 9	167 7
Depreciation				
At 1st January 2005	9 5	49 0	-	58 5
Exchange adjustment	0 4	0 5	-	0 9
Arising from acquisitions in the year	2 4	12 3	-	14 7
Charge for the year	1 7	8 1	-	9 8
Disposals	(0 2)	(2 0)	-	(2 2)
Reclassification	-	0 7	-	0 7
At 31st December 2005	13 8	68 6	-	82 4
Net book value at 31st December 2005	39 7	43 7	1 9	85 3

Property has been valued using previously revalued amounts as deemed cost, no adjustment to the carrying amount as previously recorded has been made

14. Investments in associates

	2006 £m	2005 £m
Investment in associates	**0 3**	0 3

Part of the investment above relates to a 5% holding in Grange Australia

15. Inventories

	2006 £m	2005 £m
Raw materials and consumables	**21 0**	22 5
Work in progress	**13 4**	13 1
Finished goods and goods for resale	**60 4**	53 8
Total inventories	**94.8**	89 4

The Group consumed £180 5m of inventories during the year (2005 £166 9m) The Group charged £1 8m to inventory provisions in the year (2005 £1 2m) The Group reversed £0 5m of the inventory provision in the year that was subsequently not required (2005 £1 1m) The Group held no inventories pledged as security for liabilities

16. Trade and other receivables

	2006 £m	2005 £m
Amounts falling due within one year		
Trade receivables	**82.4**	77 3
Less provision for impairment of receivables	**(3.4)**	(3 5)
Trade receivables – net	**79.0**	73 8
Other receivables	**5.7**	5 5
Prepayments and accrued income	**7 0**	9 2
Total receivables falling due within one year	**91 7**	88 5
Amounts falling due after one year		
Other receivables	**1.3**	1 9
Total receivables	**93.0**	90 4

Trade and other receivables are recorded at fair value

The effective interest rate used for fair valuing non-current receivables was 7% (2005 7%)

Notes to the accounts

17. Trade and other payables

	2006 £m	2005 £m
Current trade and other payables		
Trade payables	**74.0**	70 0
Payments on account	**0.4**	1 1
Social security	**5.9**	6 3
Accruals and deferred income	**20.4**	25 6
Other payables	**14 5**	14 5
Total current operating payables	**115.2**	117 5
Accruals and deferred income	**1 0**	0 2
Other payables	**-**	0 6
Total non-current operating payables	**1.0**	0 8

18. Current tax assets / (liabilities)

	2006 £m	2005 £m
Current tax assets	**7.2**	0 1
Current tax liabilities	**(14 4)**	(8 6)

19. Cash and borrowings

a) Cash and cash equivalents

	2006 £m	2005 £m
Cash at bank and in hand	**0 1**	0 1
Short-term bank deposits	**43 1**	55 3
Cash and cash equivalents	**43.2**	55 4

Included in cash and cash equivalents was cash held for unclaimed dividends of £0 2m (2005 £0 2m)

The short-term bank deposits have a maturity of three months or less with an effective interest rate of 3 5% (2005 3 6%)

b) Financial liabilities – borrowings

	2006 £m	2005 £m
Current		
Loan note	**0.1**	0 1
Current obligations under finance leases	**0.2**	0 4
Bank borrowings	**2.1**	1 6
Current borrowings	**2.4**	2 1

19. Cash and borrowings (continued)

Non-current	**2006 £m**	2005 £m
Non-current obligations under finance leases	**0.3**	1 9
Bank borrowings	**51.4**	31 0
Non-current borrowings	**51.7**	32 9

The Group's bank borrowings are primarily loan advances denominated in a number of currencies and interest is based on LIBOR or the foreign equivalent Bank borrowings have been classified as current and non-current liabilities with reference to the final maturity date of the facility agreements

Bank borrowings comprise the following

	Interest rate basis	**2006 £m**	2005 £m
Unsecured bank loans 2007	Floating	**0.7**	0 2
Unsecured bank loans	Floating	**49 3**	29 5
Secured bank loans 2008	Floating	**2.0**	2 0
Other secured loans 2012	Fixed	**1.1**	0 9
Other secured loans 2018	Floating	**0.4**	-
Total bank borrowings		**53.5**	32 6

The £49 3m unsecured bank loans are currency denominated loan advances from committed revolving credit facilities and bear interest rates based on LIBOR and margins ranging between 0 375% and 0 75% The maturity profile of the undrawn portion of the committed bank facilities is disclosed in note 20d

c) Obligations under leases and hire purchase contracts

The Group uses finance leases and hire purchase contracts to acquire plant and machinery These leases have terms of renewal but no purchase options or escalation clauses Renewals are at the option of the lessee Future minimum lease payments under finance leases and hire purchase contracts are as follows

Future minimum payments due·	**2006 £m**	2005 £m
Not later than one year	**0.2**	0 4
After one year but not more than five years	**0 3**	2 0
	0 5	2 4
Less finance charges allocated to future periods	**-**	(0 1)
Present value of minimum lease payments	**0 5**	2 3

The present value of minimum lease payments is analysed as follows·	**£m**	£m
Not later than one year	**0.2**	0 4
After one year but not more than five years	**0.3**	1 9
	0.5	2 3

Notes to the accounts

20. Financial instruments

a) Forward foreign exchange contracts

As a result of the Group's geographical presence and operations, forward foreign currency contracts put in place are primarily denominated in US Dollars, Euros and Sterling

There were no forward foreign exchange contracts designated as cash flow hedges at the balance sheet date (2005 £0 1m)

As at 31st December 2006, the notional amounts of outstanding forward foreign exchange contracts that the Group was committed to were GBP3 9m (2005 GBP2 8m), CHF1 9m (2005 CHF1 6m), EUR1 4m (2005 EUR6 3m) and USD5 6m (2005 USD8 4m) The fair value of these open forward foreign exchange contracts are equivalent to their carrying amount The contracts have been put in place to mitigate the foreign currency risk of anticipated future sales and purchase commitments and mature over the next twelve months

b) Hedge of net investment in foreign entities

The Group has Euro and US Dollar denominated borrowings, which it has designated as a hedge of the net investment in its subsidiaries in Europe and the US The fair value of such Euro borrowings at 31st December 2006 was £29 7m (2005 £27 4m) and the fair value of the US Dollar borrowings was £17 2m (2005 £2 1m) The exchange difference on the translation of the borrowings into sterling has been recognised in translation reserves

There was no ineffectiveness to be recorded from net investment in foreign entity hedges

c) Interest rate risk

The fair value of the Group's financial assets and liabilities are equivalent to their book value at the balance sheet date

In respect of financial assets and liabilities, the following table indicates their interest rate basis and the periods in which they mature Floating rate borrowings are repriced within six months from the balance sheet date

2006	**Interest rate basis**	**Within 1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**5 years and over**	**Total**
		£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Cash and cash equivalents	Floating	43 2	-	-	-	-	-	**43 2**
Loan note	Fixed	(0 1)	-	-	-	-	-	**(0 1)**
Finance leases	Fixed	(0 2)	(0 2)	(0 1)	-	-	-	**(0 5)**
Borrowings	Fixed	-	-	-	-	-	(1 1)	**(1 1)**
Borrowings	Floating	(2 1)	(29 2)	(20 6)	(0 2)	(0 1)	(0 2)	**(52 4)**
Total		**40.8**	**(29 4)**	**(20 7)**	**(0.2)**	**(0 1)**	**(1 3)**	**(10 9)**

2005	**Interest rate basis**	**Within 1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**5 years and over**	**Total**
		£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Cash and cash equivalents	Floating	55 4	-	-	-	-	-	55 4
Loan note	Fixed	-	(0 1)	-	-	-	-	(0 1)
Finance leases	Fixed	(0 4)	(0 3)	(0 2)	-	-	(1 4)	(2 3)
Borrowings	Fixed	-	-	-	-	-	(0 9)	(0 9)
Borrowings	Floating	(1 6)	(30 1)	-	-	-	-	(31 7)
Total		53 4	(30 5)	(0 2)	-	-	(2 3)	20 4

20. Financial instruments (continued)

d) Liquidity risk

The Group maintains a mixture of short-term uncommitted and medium-term committed facilities to ensure a sufficient level of funds are available for its business operations The committed facilities have been arranged to help finance the expansion of the Group's activities These facilities incur commitment fees at market rates

The following table analyses the Group's principal undrawn committed facilities at the year-end

	2006 £m	2005 £m
Expiring within 1 year	**20 0**	-
Expiring between 1 and 2 years	**11.1**	30 5
Expiring between 2 and 5 years	**9 6**	30 0
Total undrawn committed facilities	**40 7**	60 5

In addition to the committed facilities detailed above, the Group also has uncommitted facilities totalling £51 0m (2005 £41 0m)

e) Credit risk

There are no significant concentrations of credit risk within the Group The maximum credit risk exposure relating to financial assets is represented by their carrying value as at the balance sheet date

21. Provisions

	Product warranties £m	Property & reorganisation £m	Other £m	Total £m
At 1st January	4 2	1 5	11 1	**16.8**
Exchange adjustment	(0 3)	-	(0 2)	**(0 5)**
Acquisitions (note 28)	1 3	0 9	0 7	**2 9**
Charge / (credit) in the year	3 3	-	(2 0)	**1 3**
Utilised in year	(2 1)	(1 9)	(1 0)	**(5 0)**
At 31st December	**6.4**	**0.5**	**8 6**	**15.5**

Provisions have been allocated between current and non-current as follows

	2006 £m	2005 £m
Current	**5.4**	5 1
Non-current	**10.1**	11 7
At 31st December	**15.5**	16 8

Product warranties

Provision is made for the estimated liability on all products still under warranty Product warranties of between one and three years are given, where appropriate, by individual businesses in the Group

Property and reorganisation

Following the disposal programme of previous years certain vacant property located in the UK remain with the Group Full provision has been made for the residual lease commitments, together with other outgoings, for the remaining period of the leases The timing of payments on vacant properties is £0 1m repayable in less than one year and £0 3m greater than one year The reorganisation provision includes costs associated with announced reorganisations within the Group which occurred during the year

Other

The Group's other provisions relate to the remaining costs in respect of the disposal of Pipe Systems in 2001, including possible warranty and indemnity claims, other claims and other costs from third parties in relation to divested businesses Although the majority of these provisions may be realised in the next accounting period, the exact timing is unclear

AGA Foodservice Group

Notes to the accounts

22. Deferred tax

Deferred tax ıs calculated on temporary differences under the balance sheet lıabılıty method
The movement on the deferred tax account ıs shown below

Deferred tax – net

	2006	2005
	£m	£m
At 1st January	**(3.7)**	(0 6)
Exchange adjustment	**-**	0 2
Acquısıtıons (note 28)	**0.1**	(0 6)
Taken to equıty	**9.9**	(5 3)
Charge	**1 6**	2 1
Utılısed ın year	**0.2**	0 5
At 31st December	**8 1**	(3 7)

Deferred tax assets have been recognısed ın respect of all tax losses and other temporary dıfferences gıvıng rıse to deferred tax assets because ıt ıs probable that these assets wıll be recovered

The movement ın deferred tax assets and lıabılıtıes, prıor to offsettıng the balances, durıng the year are shown below

Deferred tax lıabılıtıes

	Accelerated tax depreciatıon	**Other**	**Pensıons**	**Total**
	£m	**£m**	**£m**	**£m**
At 1st January	4 3	3 3	-	**7 6**
(Credıted) / charged to ıncome statement	(0 1)	0 3	-	**0 2**
Taken to equıty	-	-	6 5	**6.5**
Other	-	0 3	-	**0 3**
At 31st December	**4.2**	**3 9**	**6 5**	**14 6**

The deferred tax lıabılıty due after more than one year ıs £4 2m (2005 £4 3m)

Deferred tax assets

	Provısıons	**Tax losses**	**Pensıons**	**Total**
	£m	**£m**	**£m**	**£m**
At 1st January	3 4	2 2	5 7	**11.3**
(Charged) / credıted to ıncome statement	(1 1)	2 0	(2 3)	**(1 4)**
Taken to equıty	-	-	(3 4)	**(3 4)**
At 31st December	**2 3**	**4 2**	**-**	**6 5**

Net deferred tax lıabılıty / (asset)	
At 31st December 2006	**8.1**
At 31st December 2005	(3 7)

The utılısatıon of the deferred tax asset ıs dependent on future taxable profıts beıng ın excess of the profıts arısıng from the reversal of exıstıng taxable temporary dıfferences

The deferred tax charged / (credıted) to equıty was as follows

	2006	2005
	£m	£m
Tax on actuarıal gaıns / (losses)	**9.9**	(5 3)
Tax on ıtems taken dırectly to reserves	**9 9**	(5 3)

23. Share capital

	31st December 2006 £m	31st December 2005 £m	31st December 2004 £m
Authorised			
327 0m ordinary shares of 25p each (2005 327 0m)	**81 8**	81 8	81 8
Issued and fully paid			
129 1m ordinary shares of 25p each (2005 128 3m)	**32 3**	32 1	31 5

During the year 0 9m ordinary shares of 25p each (nominal value £0 2m) (2005 1 1m shares, nominal value £0 3m) were issued in connection with the Company's share option schemes for an aggregate consideration of £2 2m (2005 £2 7m)

Options

Options outstanding at 31st December 2006 under the following schemes were as follows

Senior Executive Share Option Schemes

Grant date	**Number of shares**	**Exercisable in 7 years to**	**Grant price p per share**
April 1997	15,000	April 2007	288
May 1998	153,000	May 2008	321
September 1999	40,000	September 2009	225
June 2001	143,000	June 2011	236
May 2002	210,000	March 2012	261
October 2003	647,265	October 2013	235
Total	**1,208,265**		

Long-Term Incentive Plan

Grant date	**Number of shares**	**Exercisable in 7 years to**	**Grant price p per share**
October 2003	96,383	October 2013	235
April 2005	258,816	April 2015	307
April 2006	234,890	April 2016	387
	590,089		

Under the Long-Term Incentive Plan a fee of £1 per award is payable and no further consideration is due Further information is set out in the remuneration report on pages 29 to 33

24. Share based payments

The Senior Executive Share Option Scheme was approved in 1994 Under the scheme the remuneration committee was able to grant options over shares in the Company to senior executives of the Group, although the scheme lapsed in May 2004 Options were granted with a fixed exercise price equal to the market price of the shares under the option at the date of grant The contractual life of an option was ten years Options granted under the scheme will become exercisable on the third anniversary of the date of grant, subject to the Group's earnings per share exceeding, by at least 3% per annum, the increase in the UK's retail price index over a period of three years beginning not earlier than the Company's last financial year before the date of an option grant The exercise of an option is subject to continued employment or other circumstances in the scheme rules Options granted since November 2002 were valued using Black-Scholes option model

The Long-Term Incentive Plan (LTIP) was introduced in 1999 as an appropriate method to incentivise executives and senior management The LTIP consists of a right to acquire shares at a nominal price of £1 which will be exercisable after a period of three years at the earliest The actual percentage of shares that can be acquired depends on two performance criteria The first of these is a comparison of the Company's total shareholder return (TSR) with the TSR of companies in a comparator approved by the remuneration committee at the date of grant and the second is that the remuneration committee determines that there has been a sustained improvement in the underlying financial performance of the Company (see remuneration report on pages 29 to 33)

Notes to the accounts

24. Share based payments (contınued)

The faır value per optıon of the LTIPs granted and the assumptıons used ın the calculatıon are as follows

Grant date	**27th Aprıl 2006**	27th Aprıl 2005
Share prıce at grant date	**386.6p**	307 0p
Exercıse prıce	**£1**	£1
Number of employees	**54**	42
Shares under optıon	**246,627**	272,022
Vestıng perıod (years)	**3**	3
Expected volatılıty	**34.9**	34 9
Optıon lıfe (years)	**10**	10
Expected lıfe (years)	**3**	3
Correlatıon of paır of shares ın comparator group	**12%**	9 7%
Expected dıvıdend expressed as a dıvıdend yıeld	**2 7%**	2 9%
Possıbılıty of ceasıng employment before vestıng	**0%**	0%
Expectatıons of meetıng performance crıterıa	**90%**	90%
Faır value per optıon	**£2.30**	£1 69

The expected volatılıty ıs based on hıstorıcal volatılıty over ten years The expected lıfe ıs the average expected to exercıse A Monte-Carlo model was used to value TSR performance condıtıons for the LTIP

The total charge for the year relatıng to employee share based payment plans was £0 4m (2005 £0 4m) before tax and £0 3m post tax

A reconcılıatıon of the movements ın the Senıor Executıve Share Optıon Scheme ıs shown below

	2006 Number '000	2005 Number '000
Outstandıng at 1st January	**2,105**	3,397
Lapsed (expıred and forfeıted)	**(51)**	(183)
Exercısed	**(846)**	(1,109)
Outstandıng at 31st December	**1,208**	2,105
Exercısable at 31st December	**592**	833

2006					2005			
Range of exercıse prıces	**Weıghted average exercıse prıce**	**Number of shares**	**Weıghted average remaınıng lıfe**		Weıghted average exercıse prıce	Number of shares	Weıghted average remaınıng lıfe	
			Expected	**Contractual**			Expected	Contractual
p	**p**	**'000**	**years**	**years**	p	'000	years	years
225-235	**234**	**687**	**0 8**	**6.5**	234	788	1 8	7 4
236-261	**251**	**353**	**2.5**	**5.0**	251	914	1 3	6 0
288-321	**318**	**168**	**0 6**	**1.2**	302	403	0 9	1 7
		1,208				2,105		

The weıghted average share prıce durıng the perıod for optıons exercısed over the year was 260p (2005 239p)

24. Share based payments (continued)

A reconciliation of the movements in the LTIP is shown below

	2006		2005	
	Number '000	Weighted average exercise price at award p	Number '000	Weighted average exercise price at award p
Outstanding at 1st January	434	280	509	257
Exercised	(4)	307	-	-
Lapsed (expired and forfeited)	(87)	260	(347)	268
Granted	247	387	272	307
Outstanding at 31st December	590	324	434	280
Exercisable at 31st December	96	235	-	-

25. Statement of changes in shareholders' equity

	Share capital £m	Share premium £m	Other reserves (note 27) £m	Retained earnings £m	Total £m	Minority interests £m	Total equity £m
At 1st January 2006	32 1	65 8	38 3	162 5	**298.7**	2 3	**301.0**
Exchange adjustment	-	-	(11 0)	-	**(11.0)**	(0 1)	**(11 1)**
Profit for year	-	-	-	31 1	**31.1**	-	**31 1**
Dividends	-	-	-	(12 5)	**(12.5)**	-	**(12 5)**
Acquired in year	-	-	-	-	-	(0 3)	**(0 3)**
Actuarial gain on pension scheme	-	-	-	33 3	**33.3**	-	**33.3**
Tax on items taken to reserves	-	-	-	(9 9)	**(9 9)**	-	**(9 9)**
Shares issued	0 2	2 0	-	-	**2.2**	-	**2 2**
Net investment hedges	-	-	1 2	-	**1.2**	-	**1 2**
Share based payments	-	-	-	0 4	**0.4**	-	**0 4**
At 31st December 2006	**32.3**	**67.8**	**28.5**	**204.9**	**333.5**	**1 9**	**335 4**

	Share capital £m	Share premium £m	Other reserves (note 27) £m	Retained earnings £m	Total £m	Minority interests £m	Total equity £m
At 1st January 2005	31 5	60 9	31 5	151 7	275 6	0 2	275 8
Exchange adjustment	-	-	4 6	-	4 6	0 1	4 7
Profit for year	-	-	-	34 0	34 0	0 4	34 4
Dividends	-	-	-	(11 3)	(11 3)	-	(11 3)
Acquired in year	-	-	1 5	-	1 5	1 6	3 1
Actuarial losses on pension scheme	-	-	-	(17 5)	(17 5)	-	(17 5)
Tax on items taken to reserves	-	-	-	5 3	5 3	-	5 3
Shares issued	0 6	4 9	-	-	5 5	-	5 5
Cash flow hedges	-	-	(0 1)	-	(0 1)	-	(0 1)
Net investment hedges	-	-	0 8	-	0 8	-	0 8
Share based payments	-	-	-	0 3	0 3	-	0 3
At 31st December 2005	32 1	65 8	38 3	162 5	298 7	2 3	301 0

The cumulative amount of goodwill taken direct to reserves since 1985 in respect of businesses that were members of the Group at 31st December 2006 is £6 3m (2005 £6 3m)

Notes to the accounts

25. Statement of changes in shareholders' equity (continued)

For each currency, exchange differences arising from the translation of foreign currency borrowings used to finance foreign currency investments have been offset as reserves movements against exchange differences arising on the retranslation of the net investment in that currency In total, net exchange gains on foreign currency net cash / borrowings of £1 2m (2005 £0 8m) have been taken to reserves

26. Minority interests

	2006 £m	2005 £m
At 1st January	**2.3**	0 2
Exchange adjustment	**(0 1)**	0 1
Acquired in year	**(0.3)**	1 6
(Credited) / charged in year	-	0 4
At 31st December	**1 9**	2 3

27. Other reserves

	Fair value revaluation reserve £m	Translation reserve £m	Hedging reserve £m	Capital redemption £m	Revaluation reserve £m	Total £m
At 1st January 2006	1 5	(1 2)	(0 1)	36 0	2 1	**38 3**
Exchange adjustment	-	(11 0)	-	-	-	**(11 0)**
Net investment hedges	-	1 2	-	-	-	**1 2**
At 31st December 2006	**1 5**	**(11 0)**	**(0 1)**	**36.0**	**2 1**	**28 5**

	Fair value revaluation reserve £m	Translation reserve £m	Hedging reserve £m	Capital redemption £m	Revaluation reserve £m	Total £m
At 1st January 2005	-	(6 6)	-	36 0	2 1	31 5
Exchange adjustment	-	4 6	-	-	-	4 6
Acquisitions (note 28)	1 5	-	-	-	-	1 5
Cash flow hedges – fair value loss	-	-	(0 1)	-	-	(0 1)
Net investment hedges	-	0 8	-	-	-	0 8
At 31st December 2005	1 5	(1 2)	(0 1)	36 0	2 1	38 3

The fair value revaluation reserve relates to the Grange acquisition in 2005, the translation reserve includes all exchange adjustments, the capital redemption reserve has arisen through share buy-backs in previous years and the revaluation reserve has arisen through revaluation of property from previous years All these reserves are none distributable

28. Acquisitions

a) Acquisitions

The following purchases were completed during the year, all of these have been accounted for as acquisitions

On 2nd February 2006, the Group acquired 100% of the issued share capital of Eloma GmbH, a German combi-oven manufacturer, for a total consideration of £7 8m including repayment of borrowings of £3 0m From the date of acquisition to the 31st December 2006 Eloma contributed £14 1m to Group revenues and £1 3m to operating profit If the acquisition had been completed on the first day of the financial year, Group revenues for the year would have been £1 2m higher and Group operating profit would have remained unchanged

28. Acquisitions (continued)

On 7th September 2006, the Group acquired the assets of Amana, an international market leader in commercial microwaves based in the US for a consideration of £26 1m From the date of acquisition to the 31st December 2006 Amana contributed £9 2m to Group revenues and £1 8m to operating profit If the acquisition had been completed on the first day of the financial year, Group revenues for the year would have been £15 0m higher and Group operating profit would have been £2 3m higher

On 27th December 2006, a further 20% of the issued share capital of Williams Refrigeration Central Limited was acquired for a consideration of £0 5m taking the total holding to 100%

The costs paid in relation to the acquisitions in the year were £0 8m

The following tables summarise the provisional fair values and carrying book values of the assets acquired in the year Fair value adjustments made contain some provisional amounts due to the close proximity of the Amana acquisition to the year end These will be finalised in the 2007 financial statements when the detailed post acquisition review has been completed

The provisional fair values for Waterford Stanley, Divertimenti and Heartland presented in the 2005 financial statements have now been finalised and are reflected in the 'others' column of the following table as they are not material

All intangible assets were recognised at their respective fair values The excess over the net assets acquired is recognised as goodwill in the financial statements

		Provisional fair values				
					2006	2005
	Note	**Amana**	**Eloma**	**Others**	**Total**	Total
Net assets acquired		**£m**	**£m**	**£m**	**£m**	£m
Intangible fixed assets	12	7 5	1 8	-	**9.3**	9 0
Property, plant & equipment	13	0 8	3 2	(0 1)	**3 9**	6 7
Investments		-	-	-	-	0 4
Inventories		3 7	2 7	(0 1)	**6 3**	12 0
Trade and other receivables		2 7	1 7	-	**4 4**	7 9
Deferred tax asset		-	-	0 1	**0.1**	0 6
Cash		-	-	-	-	0 5
Borrowings		-	(3 0)	-	**(3 0)**	(10 7)
Trade and other payables		(2 7)	(1 7)	0 4	**(4 0)**	(11 8)
Retirement benefit obligations	5	-	(0 3)	-	**(0.3)**	(0 5)
Current provisions	21	(1 1)	(0 8)	(1 0)	**(2.9)**	(2 7)
Minority interest		-	-	-	-	(1 6)
Revaluation reserve		-	-	-	-	(1 5)
Net assets acquired		**10 9**	**3 6**	**(0 7)**	**13 8**	8 3
Cash paid		26 1	4 8	0 5	**31 4**	14 3
Deferred consideration		-	-	0 4	**0 4**	1 3
Investment already owned		-	-	-	-	1 4
Total consideration		**26 1**	**4 8**	**0.9**	**31.8**	17 0
Goodwill arising on acquisitions						
- in the year		15 2	1 2	0 5	**16 9**	8 2
- prior year		-	-	1 1	**1.1**	0 5
Goodwill transferred from investments		-	-	-	-	4 8
Total goodwill arising	11	**15 2**	**1.2**	**1 6**	**18.0**	13 5

Notes to the accounts

28. Acquisitions (continued)

The carrying values of assets held in the acquiring company's books at acquisition are summarised below

	Book values		
	Amana	Eloma	Total
	£m	£m	£m
Intangible assets	-	0 4	**0 4**
Property, plant & equipment	0 8	3 3	**4.1**
Inventories	3 7	3 2	**6.9**
Trade and other receivables	2 7	1 8	**4.5**
Borrowings	-	(3 0)	**(3.0)**
Trade and other payables	(2 7)	(1 6)	**(4.3)**
Current provisions	(1 1)	(0 1)	**(1.2)**
Net assets acquired	**3 4**	**4.0**	**7.4**

The fair value adjustment on Amana relates to the inclusion of the brand Further fair value adjustments are likely to be made in the next accounting period

The fair value adjustments on Eloma relate to the inclusion of the brand, plant and equipment (which has been revalued using Group depreciation rates), inventories (which have been written down in accordance with Group policy), various trade receivables (which have been provided against), provision has been made for onerous contracts, health and safety and IT and the pension obligation has been increased

Fair value adjustments on prior year acquisitions relate to provisions for inventories, warranty for Heartland and restructuring provisions for Waterford Stanley

Goodwill is initially measured at its cost, being the excess of the cost of the business combination over the interest acquired in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised

b) Intangible assets acquired

The intangible assets acquired as part of the acquisitions are analysed as follows

	£m
Computer software	**0 1**
Brand names	**9 2**
Total intangible assets acquired (note 12)	**9 3**

The principal brands acquired are 'Menumaster' which is part of Amana and 'Eloma' These brands have been assessed as having an indefinite useful life due to the strength of the brand and will not be amortised but will be subject to annual impairment tests

c) Net cash flow on acquisitions and disposals

	2006	2005
	£m	£m
Cash paid for subsidiaries	**(31 4)**	(14 3)
Cash acquired	**-**	0 5
Deferred consideration	**(0 4)**	-
Repayment of borrowings acquired with acquisitions	**(3.0)**	(4 8)
Net cash outflow	**(34.8)**	(18 6)

Borrowings of £5 9m were assumed in 2005

Effect of acquisitions during the year on the Group cash flow statement

Post-acquisition the effect on the Group cashflow was an inflow of £2 1m, being a cash inflow from operations of £2 2m and a cash outflow for capital expenditure of £0 1m

29. Commitments

	2006 £m	2005 £m
Capital commitments contracted for by the Group for property, plant and equipment but not provided for in the accounts	**2 7**	0 8

30. Operating lease commitments

	Land & buildings		Other operating leases	
Future minimum lease payments under non-cancellable leases	**2006 £m**	2005 £m	**2006 £m**	2005 £m
For leases expiring				
- within 1 year	**4 5**	9 6	**2.0**	2 5
- between 1 and 5 years	**20 7**	31 3	**2.5**	4 1
- after more than 5 years	**17.9**	21 3	**0.2**	-
Total operating lease commitments	**43 1**	62 2	**4.7**	6 6

The operating lease commitments relate to properties, motor vehicles and plant and machinery The leases have various terms, escalation clauses and renewal rights

31. Contingent liabilities

The Group had no material contingent liabilities arising in the normal course of business at 31st December 2006 (2005 nil) The Group has contingent liabilities for certain potential claims from third parties in relation to divested businesses On the basis of information presently available to them, the directors believe that no material claims are likely to arise for which provision has not been made in these accounts

32. Related party transactions

The Group recharges the Group pension scheme with the cost of administration and independent advisers paid by the Group The total amount recharged in the year to 31st December 2006 was £0 2m (2005 £0 2m) The amount outstanding at the year end was £0 4m (2005 £0 2m)

Directors' compensation

Details of directors' compensation, share options, Long-Term Incentive Plans and pensions are set out in the remuneration report on pages 29 to 33

Key management's compensation

The compensation of other key management, who are considered to be the managing directors of the major operations within each business segment, is set out below

	2006 £m	2005 £m
Salaries and short-term benefits	**0 8**	0 8
Post employment benefits	**0.1**	0 1
Share based payments	**0 2**	0 1
Total emoluments to key management	**1 1**	1 0

Notes to the accounts

33. Trading subsidiaries

The following is a list of the Group's principal trading subsidiaries at 31st December 2006 The share capital in each case consists, unless otherwise stated, wholly of ordinary shares or common stock All companies are held by subsidiary undertakings, except for those marked • in which case it is held directly by the Aga Foodservice Group plc

Where subsidiaries are not wholly owned the percentage of owned capital is stated in brackets Unless otherwise stated the companies are registered in England and operate in the United Kingdom All subsidiaries included in the consolidation have coterminous year ends

Consumer Products businesses:

Aga Consumer Products Limited trades in the UK principally under the trade and business names of

Aga

Divertimenti

Fired Earth

Leisure Sinks

Rangemaster

Principal consumer overseas businesses:

Domain, Inc (USA) – held for sale

Grange SA (France) (75%)

Heartland (Canada)

La Cornue SA (France)

Northland Corporation (USA)

Waterford Stanley Limited (EIRE)

Central Services:

AFG Corporate Services Limited •

AFG Properties Limited •

Foodservice Equipment businesses

Aga Foodservice Equipment Limited trades in the UK principally under the trade and business names of

Falcon Foodservice Equipment

Millers Vanguard

Mono Equipment

Serviceline

Williams Refrigeration

Principal foodservice overseas businesses

Adamatic, A Corporation (USA)

Aga Commercial Products Inc (USA)

Belshaw Bros , Inc (USA)

Bongard SA (France)

Eloma GmbH (Germany)

Ming Fai Stainless Steel Catering Equipment Manufacturing Co Limited (Hong Kong)

Pavailler Holding SAS (France)

Victory Refrigeration LLC (USA)

Williams Refrigeration Limited (Australia) •

Other principal foodservice business.

Williams Refrigeration Central Limited •

34. Post balance sheet event

The Group has announced a special dividend of 43 0p to be paid in June 2007 and this will be accompanied by a share consolidation

Independent auditors' report

To the members of Aga Foodservice Group plc

We have audited the Group financial statements of Aga Foodservice Group plc for the year ended 31st December 2006 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense and the related notes 1 to 34 These Group financial statements have been prepared under the accounting policies set out therein

We have reported separately on the parent Company financial statements of Aga Foodservice Group plc for the year ended 31st December 2006 and on the information in the directors' remuneration report that is described as having been audited

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements The other information comprises only the directors' report, the chairman's statement, the business review, the unaudited part of the remuneration report and the Corporate Governance Statement We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements Our responsibilities do not extend to any other information

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group 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 Group financial statements

Opinion

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31st December 2006 and of its profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and
- the information given in the directors' report is consistent with the Group financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
Birmingham
16th March 2007

AGA Foodservice Group

Five year financial history

Trading results		IFRS 2006 £m	IFRS 2005 £m	IFRS 2004 £m	UK GAAP as previously reported 2003 £m	UK GAAP as previously reported 2002 £m
Revenue		**567 7**	501 8	433 7	392 4	330 3
Total operating profit before disposal of businesses, goodwill amortisation and non-recurring costs		**47 7**	41 5	35 7	33 2	30 9
Non-recurring cost		**(1.0)**	-	-	-	-
Goodwill amortisation		-	-	-	(8 0)	(6 5)
Total operating profit		**46.7**	41 5	35 7	25 2	24 4
Net finance (expense) / income		**(0 7)**	1 2	0 6	0 9	3 2
Profit before disposal of businesses / discontinued		**46.0**	42 7	36 3	26 1	27 6
Disposal of businesses / discontinued		**(5 9)**	0 3	-	1 8	-
Profit before tax		**40.1**	43 0	36 3	27 9	27 6
Income tax		**(9 0)**	(8 6)	(7 1)	(5 6)	(7 4)
Profit after tax		**31 1**	34 4	29 2	22 3	20 2
Statistics						
Operating profit before disposal of businesses and goodwill amortisation to revenue	%	**8 4**	8 3	8 2	8 5	9 4
Dividend per ordinary share	p	**10 5**	9 2	8 3	7 2	6 0
Earnings per share – continuing operations						
Basic	p	**28 7**	26 4	22 9	17 2	15 6
Diluted	p	**28.5**	26 3	22 8	17 1	15 6

Balance sheet summary	IFRS 2006 £m	IFRS 2005 £m	IFRS 2004 £m	UK GAAP 2003 £m	UK GAAP 2002 £m
Net operating assets					
Property, plant and equipment	**85.7**	85 3	77 2	73 2	62 2
Inventories	**94.8**	89 4	70 2	61 3	52 0
Operating receivables less payables and provisions	**(38 7)**	(44 7)	(42 5)	(13 5)	(25 7)
Total net operating assets before intangibles	**141 8**	130 0	104 9	121 0	88 5
Net retirement benefit surplus / (obligation)	**24 4**	(18 2)	(6 6)	-	-
Intangibles	**195.1**	173 3	146 2	140 7	139 3
Total net operating assets	**361 3**	285 1	244 5	261 7	227 8
Investments	**0 3**	0 3	6 5	5 8	2 8
Tax and dividends	**(15 3)**	(4 8)	(0 3)	(14 8)	(14 0)
Total net (debt) / cash	**(10 9)**	20 4	25 1	29 6	55 5
Total net assets employed	**335.4**	301 0	275 8	282 3	272 1
Financed by					
Ordinary shares	**32.3**	32 1	31 5	32 4	32 3
Reserves	**301 2**	266 6	244 1	249 5	239 4
Total shareholders' funds	**333.5**	298 7	275 6	281 9	271 7
Minority interests	**1 9**	2 3	0 2	0 4	0 4
Total equity	**335 4**	301 0	275 8	282 3	272 1

The main changes from UK GAAP to IFRS relate to pensions, goodwill and taxation

PARENT COMPANY ACCOUNTS UNDER UK GAAP

As noted on page 26 the Company has elected to prepare its financial statements under UK GAAP

Company balance sheet

As at 31st December

	Notes	2006 £m	2005 £m
Fixed assets			
Investments	5	**494.4**	487 4
Total fixed assets		**494.4**	487 4
Current assets			
Debtors	6	**741 0**	714 4
Cash at bank and in hand	7	**4 1**	17 4
Total current assets		**745 1**	731 8
Creditors – amounts falling due within one year			
Creditors	9	**(638 4)**	(619 5)
Borrowings	7	**(0.1)**	(0 1)
Total amounts falling due within one year		**(638 5)**	(619 6)
Net current assets		**106 6**	112 2
Total assets less current liabilities		**601 0**	599 6
Creditors – amounts falling due after more than one year			
Creditors	9	**-**	(1 8)
Borrowings	7	**(49 3)**	(29 5)
Provisions for liabilities and charges	10	**(5 7)**	(7 5)
Total net assets employed		**546 0**	560 8
Shareholders' equity			
Share capital	11	**32 3**	32 1
Share premium account	12	**67 8**	65 8
Capital redemption reserve	12	**36 0**	36 0
Profit and loss account	12	**409 9**	426 9
Total shareholders' funds		**546 0**	560 8

The accounts on pages 73 to 79 were approved by the board of directors on 16th March 2007 and were signed on its behalf by

W B McGrath **Chief Executive** W. McGrath

S M Smith **Finance Director** Shaun Smith

Notes to the accounts are on pages 74 to 79

AGA Foodservice Group

Notes to the accounts

The directors' report is on pages 20 to 23 of the Annual Report and Accounts

1. Accounting policies

Basis of accounting

The accounts are prepared under the historical cost convention and in accordance with applicable Accounting Standards and the Companies Act 1985

A consolidated Group cash flow statement has been included in the Aga Foodservice Group plc consolidated accounts, the Company has therefore taken advantage of the exemption under FRS 1 not to produce a cash flow statement

Pension costs

The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the periods benefiting from the employees' services in accordance with FRS 17

Financial instruments

Financial assets are recognised when the company becomes party to the contracts that give rise to them and are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or as available-for-sale financial assets, as appropriate

Derivative financial instruments are classified as held for trading unless they are designated as hedging instruments Assets are carried in the balance sheet at fair value with gains or losses recognised in profit or loss

The Company assesses at each balance sheet date whether a financial asset or a group of financial assets is impaired

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less

Interest bearing loans and borrowings

Obligations for loans and borrowings are recognised when the company becomes party to the related contracts and are measured initially at fair value less directly attributable transaction costs After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively in finance revenue and finance cost

Derivative financial instruments and hedging

Where appropriate, the Company uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations The Company does not hold or issue derivative financial instruments for speculative purposes

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles The fair value of interest rate swap contracts is determined by reference to market values for similar instruments

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is documented at its inception This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration Such hedges are expected to be highly effective at inception

For the purpose of hedge accounting, a hedge is classified as

- a fair value hedge, i e a hedge of the fair value of an asset or a liability,
- a cash flow hedge, i e a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction

Fair value hedges

Changes in the fair value of derivative instruments that are designated and qualify as fair value hedges are recorded in the

1. Accounting policies (continued)

Derivative financial instruments and hedging (continued)

profit and loss account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk

Cash flow hedges

Changes in the fair value of derivative instruments designated as cash flow hedges such as forward currency contracts are recognised in equity, to the extent that the hedges are effective Any ineffective portion is recognised as a profit or loss Amounts deferred in equity are released when the forecast hedged transaction impacts profit and loss

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability at the balance sheet date

Foreign currencies

The Company's functional currency and the presentation currency is pounds sterling Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date All differences are taken to the profit and loss account, except when hedge accounting is applied These are taken directly to reserves until the hedged transaction impacts profit or loss, at which time they are recognised in the profit and loss account

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions Non-monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined

Deferred tax

Deferred tax is provided in respect of all timing differences, using the balance sheet liability method Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date Income tax is provided for using current rates

Investments

Investments in subsidiaries are held at cost and reviewed for impairment annually and when there are indicators that suggest the amount might not be recoverable

Provisions

The Company's other provisions relate to the remaining costs in respect of the disposal of Pipe Systems, including probable warranty and indemnity claims, other claims and other costs from third parties in relation to divested businesses

2. Company profit and loss account

Aga Foodservice Group plc has taken advantage of section 230(3) of the Companies Act 1985 and has not included its own profit and loss account in these accounts The Company's loss after tax was £4 5m (2005 profit £1 1m)

The profit and loss account includes £45,000 for Ernst & Young (2005 £30,000 for PricewaterhouseCoopers) for audit fees

Notes to the accounts

3. Dividends

	2006 £m	2005 £m
Final paid of 6 2p per share for the year ended 31st December 2005 (2004 5 8p)	**8.0**	7 4
Interim paid of 3 5p per share (2005 3 0p)	**4 5**	3 9
Amounts recognised as distributions to equity shareholders in the year	**12.5**	11 3

The directors are proposing a final dividend in respect of the financial year ending 31st December 2006 of 7 0p (2005 6 2p) which will represent a £9 0m reduction to shareholders' equity This has not been included as a liability as it has not been approved by the shareholders It will be paid on 1st June 2007 to shareholders who are on the register of members on 27th April 2007

4. Directors' compensation

The compensation, share options, Long-Term Incentive Plans and pensions of the directors are disclosed in the remuneration committee report on pages 29 to 33 of the Annual Report and Accounts

5. Investments

	Cost of shares £m	Provisions £m	Net book value £m
Interest in subsidiaries			
At 1st January	490 5	(3 1)	**487.4**
Additions	7 3	-	**7.3**
Intra group transfers	-	-	-
Disposals	(3 0)	2 7	**(0.3)**
At 31st December	**494 8**	**(0 4)**	**494.4**

6. Trade and other debtors

Amounts falling due within one year	2006 £m	2005 £m
Amounts owed by Group undertakings	**721 0**	691 8
Other receivables	**0.3**	0 3
Total debtors falling due within one year	**721 3**	692 1
Corporation tax recoverable	**19.7**	22 3
Total debtors	**741 0**	714 4

7. Cash and borrowings

a) Cash and cash equivalents	2006 £m	2005 £m
Cash at bank and in hand	**4 1**	3 9
Short-term bank deposits	**-**	13 5
Cash and cash equivalents	**4.1**	17 4

Included in cash and cash equivalents was cash held for unclaimed dividends of £0 2m (2005 £0 2m)

7. Cash and borrowings (continued)

b) Financial liabilities – net borrowings	2006 £m	2005 £m
Fixed rate loan notes	**0 1**	0 1
Amounts falling due within one year	**0 1**	0 1
Bank borrowings	**49 3**	29 5
Amounts falling due after more than one year	**49 3**	29 5
Total borrowings	**49 4**	29 6
Cash and cash equivalents	**(4 1)**	(17 4)
Total net borrowings	**45 3**	12 2

The Company's borrowings are primarily loan advances denominated in a number of currencies and interest is based on LIBOR or foreign equivalents The maturity of loan advances range between one and six months

The loans are unsecured and are wholly repayable within five years

8. Financial instruments

The Company's objective in using financial instruments is to minimise its exposure to financial risk The Group treasurer co-ordinates banking arrangements, investment of surplus funds, ongoing borrowing requirements and the use of financial instruments where appropriate The Company manages the financial instrument credit risk and investment risk by entering into transactions with established financial institutions and relationship banks

Funding of major corporate-related transactions are carried out by group treasury which operates as a cost centre

The main risks arising from the Company's financial instruments are interest rate risk and foreign currency risk Policies for managing these risks are governed by board approved policies and procedures

An outline of the Company's financial risk management policy is set out in the accounting policy note on page 74

The Company's borrowing facilities are disclosed in note 20(d) of the Annual Report and Accounts

The financial assets of £4 1m mature within one year and of the financial liabilities of £49 3m, £28 9m matures within one to two years and the £20 4m matures within two to three years

Floating rate borrowings are repriced within six months from the balance sheet date

9. Creditors

Amounts falling due within one year	2006 £m	2005 £m
Amounts owed to Group undertakings	**636.1**	618 5
Accruals and deferred income	**1 8**	0 7
Other payables	**0 5**	0 3
Total creditors falling due within one year	**638 4**	619 5

Amounts falling due after more than one year		
Pension liability	-	1 7
Other creditors	-	0 1
Total creditors falling due after more than one year	-	1 8

Notes to the accounts

10. Provisions

	Deferred tax £m	Other £m	Total £m
At 1st January	-	7 5	**7 5**
Charge / (credit) in the year	0 2	(1 5)	**(1 3)**
Utilised in year	-	(0 5)	**(0 5)**
At 31st December	**0.2**	**5.5**	**5 7**

The Company's other provisions relates to the remaining costs in respect of the disposal of Pipe Systems, including possible warranty and indemnity claims, other claims and other costs from third parties in relation to divested businesses The timing of settlement of these provisions is unclear

11. Share capital

	2006 £m	2005 £m
Authorised		
327 0m ordinary shares of 25p each (2005 327 0m)	**81.8**	81 8
Issued and fully paid		
129 1m ordinary shares of 25p each (2005 128 3m)	**32.3**	32 1

During the year 0 9m ordinary shares of 25p each (nominal value £0 2m) (2005 1 1m shares, nominal value £0 3m) were issued in connection with the Company's share option schemes for an aggregate consideration of £2 2m (2005 £2 7m)

Options

Options outstanding at 31st December 2006 are shown in note 23 of the Annual Report and Accounts

12. Reserves

	Share capital £m	Share premium £m	Capital redemption reserve £m	Profit and loss account £m	Total equity £m
At 1st January	32 1	65 8	36 0	426 9	**560 8**
Dividends paid	-	-	-	(12 5)	**(12.5)**
Loss for year	-	-	-	(4 5)	**(4 5)**
Shares issued	0 2	2 0	-	-	**2 2**
At 31st December	**32.3**	**67 8**	**36 0**	**409.9**	**546 0**

The Company's profit and loss account reserves of £409 9m (2005 £426 9m) include approximately £321m (2005 £321m) which is unavailable for distribution

13. Commitments

The Company had no capital commitments (2005 nil)

14. Contingent liabilities

The Company had no material contingent liabilities arising in the normal course of business at 31st December 2006 (2005 nil) The Company has contingent liabilities for certain potential claims from third parties in relation to divested businesses On the basis of information presently available to them, the directors believe that no material claims are likely to arise for which provision has not been made in these accounts The Company has given a number of financial and performance guarantees on behalf of subsidiaries, the relevant liabilities are included in the balance sheet

15. Related party transactions

The Company has taken advantage of the exemption permitted by FRS 8 not to disclose any transactions or balances with entities that are 90% or more controlled by the Aga Foodservice Group plc

16. Trading subsidiaries

The Company's principal trading subsidiaries at 31st December 2006 are listed in note 33 of the Annual Report and Accounts

17. Post balance sheet event

The Company has announced a special dividend of 43 0p to be paid on 1st June 2007 and this will be accompanied by a share consolidation

Statement of directors' responsibilities

The following statement, which should be read in conjunction with the statement of auditors' responsibilities set out below, is made with a view to distinguishing the respective responsibilities of the directors and of the auditors in relation to the accounts

The directors are required to prepare financial statements for each financial year which comply with the provisions of the Companies Act 1985 and give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for that year

The directors consider that in preparing the financial statements on a going-concern basis, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed

The directors are responsible for ensuring that the Company maintains accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985

The directors are responsible for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

AGA Foodservice Group

Independent auditors' report

To the members of Aga Foodservice Group plc

We have audited the parent Company financial statements of Aga Foodservice Group plc for the year ended 31st December 2006 which comprise the balance sheet and the related notes 1 to 17 These parent Company financial statements have been prepared under the accounting policies set out therein We have also audited the information in the directors' remuneration report that is described as having been audited

We have reported separately on the Group financial statements of Aga Foodservice Group plc for the year ended 31st December 2006

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the directors' remuneration report and the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities

Our responsibility is to audit the parent Company financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the parent Company financial statements give a true and fair view and whether the parent Company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the parent company directors' report is consistent with the financial statements In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent Company financial statements The other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the chairman's statement and the business review We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent Company financial statements Our responsibilities do not extend to any other information

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent Company financial statements and the part of the directors' remuneration report to be audited It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent Company 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 parent Company financial statements and the part of the directors' remuneration report to be audited 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 parent Company financial statements and the part of the directors' remuneration report to be audited

Opinion

In our opinion

- the parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31st December 2006,
- the parent Company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the parent Company financial statements

Ernst + Young LLP

Ernst & Young LLP
Registered Auditor
Birmingham
16th March 2007

Main addresses and advisers

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Auditors

Ernst & Young LLP

Financial advisers and joint stockbrokers

Dresdner Kleinwort Securities Limited

Joint stockbrokers

Citigroup Global Markets Limited

Shareholder information

At 31st December 2006, the Company had 7,646 ordinary shareholders (2005 7,938) Their holdings are analysed as follows -

Number of 25p ordinary shares	Number of shareholders	% of total shareholders	Number of shares held	% of total shares held
1 – 5,000	6,877	89 94	7,822,223	6 06
5,001 – 50,000	589	7 70	8,256,576	6 39
50,001 – 500,000	131	1 72	20,728,966	16 06
Over 500,000	49	0 64	92,300,163	71 49
Total	**7,646**	**100 00**	**129,107,928**	**100 00**

Capital gains tax

The official price of Aga Foodservice Group plc ordinary shares on 31st March 1983, adjusted for bonus issues made in 1986 and 1988, was 62 4p

2007 financial calendar

Record date for final ordinary dividend	27th April 2007
Annual General Meeting	11th May 2007
Record date for the special dividend / share consolidation	11th May 2007
Subject to shareholder approval consolidated shares commence trading	14th May 2007
Final ordinary dividend / special dividend proposed payment date	1st June 2007
Record date for interim ordinary dividend	9th November 2007
Interim ordinary dividend payable	5th December 2007