Report of the directors

The directors of Aga Foodservice Group plc present their annual report, together with the accounts of the Company, for the year ended 31st December 2003. These will be submitted to members at the Annual General Meeting (AGM) to be held in the Ramada Jarvis Hotel, The Square, Solihull, West Midlands B91 3RF, at 12 noon on Friday 7th May 2004.

Activities and business review

Aga Foodservice Group plc is the holding company of the Group and its principal trading subsidiaries and their activities are shown on page 54. An overview of the activities and a business review of the Group and of the principal businesses is given on pages 4 to 13.

Results and dividends

The profit attributable to shareholders for the financial period was £22.2m (2002 restated: £20.1m). An interim dividend of 2.2p per ordinary share was paid on 3rd December 2003. The directors recommend a final dividend of 5.0p per ordinary share payable on 4th June 2004 to members on the register at the close of business on 30th April 2004, making a total for the period of 7.2p per ordinary share (2002: 6.0p).

Share capital of the Company and Annual General Meeting

Four resolutions relating to share capital will be proposed at the AGM.

Resolution 12 renews the directors' authority under section 80 of the Companies Act 1985 ('the Act') to issue relevant securities up to a nominal value of £10,783,688 being one-third of the nominal value of the Company's issued ordinary share capital at the date of this report. The directors have no present intention of exercising this authority.

Resolution 13 renews the directors' authority under section 95 of the Act to allot ordinary shares for cash without first offering them pro-rata to existing shareholders as otherwise required by section 89 of the Act; the authority sought is limited to issues of equity securities with a nominal value not to exceed £1,617,553 being equivalent to 5% of the nominal value of the Company's issued ordinary share capital at the date of this report.

Resolution 14 which will be proposed as a special resolution, renews authority for the Company to make market purchases of up to 12,940,426 of its own shares representing 10% of the current issued share capital of the Company.

Having reviewed the anticipated cash requirements of the Group the board has decided to undertake a limited share repurchase programme under the authority given by this resolution. Any such share repurchase will take place on market on the London Stock Exchange. The maximum price payable for any shares purchased will be 105% of the average of the middle market quotations for ordinary shares as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the date of purchase (exclusive of any expenses and taxes). The authority will be exercised only if the directors believe that to do so would result in an increase in earnings per share and would be in the best interest of shareholders generally.

Following the introduction of The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003, which came into force on 1st December 2003, the Company would consider holding any of its own shares that it purchases pursuant to the authority as treasury shares. Any shares purchased pursuant to the authority will therefore be held as treasury shares or cancelled (or a combination of both). The holding of shares in treasury may give the Company additional flexibility to manage its share capital.

The sale of shares out of treasury is subject to the pre-emption rights contained in section 89 of the Act. Resolution 15 which will be proposed as a special resolution, seeks approval for amendments to the Company's Articles of Association so that a sale of shares out of treasury will be subject to the limited dis-application of section 89 contained in Resolution 13.

The total number of outstanding options to subscribe for equity shares as at the date of this report was 6,226,634. These rights represent 4.81% of the issued share capital as at such date and would represent 5.35% of the issued share capital of the Company, if the full authority to purchase its own shares in accordance with Resolution 14 were to be exercised by the Company and such shares cancelled.

Shareholders

At 31st December 2003, the Company had 8,826 ordinary shareholders (2002: 9,044). Their holdings are analysed below:

Number of shares	% of shareholders	% of shares in issue
1 – 5,000	89.97	7.13
5,001 – 50,000	7.88	7.58
50,001 – 100,000	0.69	3.50
100,001 – 500,000	0.91	14.89
Over 500,000	0.55	66.90
	100.00	100.00

Report of the directors

The following interests of 3% or more of the issued ordinary share capital of the Company as at the date of this report have been notified to the Company:

Person notifying interest	Number of ordinary shares	% of issued ordinary capital
Aviva plc	15,235,884	11.77
Britannic Investment Managers Ltd	7,921,281	6.12
Cazenove Fund Management	5,289,075	4.09
Threadneedle Asset Management Ltd	5,185,100	4.01
M&G Investment Management Ltd	4,321,014	3.34
ISIS Management plc	4,298,303	3.32
Legal & General Investment Management	4,025,968	3.11

Directors

The members of the board at the date of this report are shown on page 14. Beverley Nielsen resigned from the board on 31st January 2003 on being appointed managing director of Fired Earth. Kit Farrow stepped down as chairman and non-executive director with effect from 31st January 2004.

In accordance with the articles of association, Shaun Smith, William McGrath and Vic Cocker retire by rotation, and being eligible, offer themselves for re-election. Tony Wilson is not standing for re-election as he is stepping down as a director at the end of the AGM. Judy George, Peter Tom and Paul Dermody were appointed directors by the board on 1st July 2003, 1st February 2004 and 12th March 2004 respectively and in accordance with the articles of association, being eligible, offer themselves for re-election. The biographies of directors proposed for re-election appear on page 14 and details of directors' remuneration are set out on page 22.

Directors' interests

The interests of the directors in shares of the Company shown in the register kept under section 325 of the Act and all of which are beneficially owned, are as detailed opposite.

Details of options exercisable by directors over shares in the Company are given on page 23. As part of the acquisition of Domain Inc. in March 2002, Judy George is entitled to a deferred cash payment of $1.3m as detailed in note 20. The payment is due on 1st April 2005 subject to continued employment and may be taken in shares in Aga Foodservice Group plc as set out in the options table in the remuneration report. In addition, $3.75m of the consideration for Domain Inc. was held in the escrow pending any warranty or indemnity claims under the sale and purchase agreement. Judy George contributed $0.75m to the escrow fund. Pursuant to the terms of the escrow arrangement $0.5m was paid out of the escrow fund to Judy George during 2003. Should there be no claims under the warranties or indemnities Judy George will be paid $0.25m plus accrued interest, representing the balance of her contribution to the escrow fund, on or before 31st March 2005. Save as set out above and in note 29, no director had an interest in any contract of significance with any Group company.

	At 19th March 2004	At 31st December 2003 or date of appointment or resignation	At 31st December 2002 or date of appointment
C J Farrow	28,500	28,500	21,000
W B McGrath	96,000	88,500	79,307
S Rennie	52,500	52,500	43,700
S M Smith	27,500	27,500	18,500
J A George	2,500	2,500	–
V Cocker	10,000	10,000	–
A J Wilson	99,308	99,308	99,308
B A Nielsen	1,425	1,425	1,425
J D Lovering	20,000	20,000	–
H M Mahy	1,000	1,000	–
P W G Tom	–	–	–
P B Dermody	–	–	–

Acquisitions and disposals

The principal acquisitions and increased interests during the period were as follows:

March 2003	Grange SA (France) (increased holding to 40.7%)
September 2003	Northland Corporation (US)

The Northland purchase made in 2003 has been accounted for as an acquisition in accordance with accounting standard FRS 6. Details relating to the fair value of net assets acquired and the considerations paid are set out in note 23 to the accounts on page 51.

Research and development

Product innovation is a key feature of the Group's strategy. Each product group has its own development department close to its production line to encourage rapid response times. Research and development has an increasingly important role in the Group. The decision has been taken to capitalise certain development spend under SSAP 13

Report of the directors

and in anticipation of the adoption of International Accounting Standards in 2005.

Creditor payment policy

It is Group policy that payment will be made in accordance with agreed terms, provided the supplier is complying with the relevant terms and conditions, including the prompt and complete submission of all specified documentation. It is also Group policy to ensure that suppliers know the terms on which payment will take place when business is agreed. Individual operating businesses within the Group are responsible for establishing appropriate policies with regard to the payment of their suppliers. The Group's trade creditors as at 31st December 2003 equated to 75 days of related purchases (2002: 75 days).

Employee involvement

The Group is open in the communication of information to employees concerning factors affecting their interests in the development of the Group and ensuring their appropriate involvement.

Disabled persons

Appropriate consideration is given to disabled applicants in terms of employment. Furthermore, training, career development and promotion of disabled persons is available, as appropriate, with special attention to the particular needs of individuals who become disabled in employment.

Political and charitable donations

During 2003 the Group gave £21,112 (2002: £13,745) to charitable causes. The principal beneficiaries were organisations concerned with the arts, children, people with physical disabilities, sport and medical research. The Aga Foodservice Group Charitable Trust also made charitable donations during the year of £19,015 in total (2002: £32,000). No political donations were made during the year (2002: nil).

Capital gains tax

The official price of Aga Foodservice Group plc ordinary shares on 31st March 1982, adjusted for the bonus issues made in 1986 and 1988, was 62.4p.

Close company status

The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1988, nor was it a close company during the period.

Going concern

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. For this reason the "going concern basis" has been adopted in preparing the accounts.

Auditors

The auditors, PricewaterhouseCoopers LLP, have expressed their willingness to continue in office. Resolution 10 will be proposed at the AGM to reappoint them as auditors to the Company.

Shaun Smith

By order of the board
S M Smith
Secretary
Solihull
19th March 2004

Corporate governance

The board supports the principles of corporate governance advocated by the existing Combined Code of the Committee on Corporate Governance and complied with its provisions in the year under review. In July 2003, the Financial Reporting Council published the new Combined Code of Corporate Governance ('the new Code') which will apply to the Company's reporting period commencing 1st January 2004. During 2003, the Company has taken steps to implement the provisions of the new Code and its supporting principles wherever possible and progress towards early adoption is documented in this report. The board has considered and implemented, where appropriate, the guidelines on Corporate Social Responsibility (CSR) issued by the Association of British Insurers. The board takes full responsibility for CSR and it is included in the risk management process.

The board of directors

The board is collectively responsible for setting the Company's strategic direction, values and standards within a framework of prudent and effective controls that enable risk to be assessed and managed. It ensures that adequate resources are made available to enable these objectives to be met. The executive directors undertake frequent

Corporate governance

reviews of business performance and report regularly to the board.

The board of directors comprises the non-executive chairman, four executive directors and five further non-executive directors. Tony Wilson is to step down as a non-executive director at the end of the AGM in May 2004. The number of non-executive directors will then reduce to four. The directors' biographies on page 14 detail those deemed to be independent. Other than as stated in Tony Wilson's biography the board does not consider there are any relationships or circumstances which may indicate a lack of independence as defined under the new Code. The roles of group chairman and group chief executive are held by separate directors and there is a clear division of responsibilities between them. The chairman is primarily responsible for the leadership and effective functioning of the board, ensuring there is appropriate communication with shareholders and constructive relationships between the non-executives and executives. The chief executive is responsible for implementing the board's strategies and for operational performance. The company secretary reports to the chairman upon secretarial matters. The company secretary in conjunction with the chairman is responsible for ensuring that directors receive accurate, timely and clear information and for ensuring good information flows within the board and its committees, facilitating induction and assisting with professional development as required.

All directors have access to the advice and services of the company secretary, who, with the chairman, is responsible for the proper conduct of board procedures and advising the board on governance matters. As the company secretary is also the executive finance director, there is clear separation of these roles and the company secretary does not act as secretary to the meetings of the board committees. This role is undertaken by the deputy company secretary. This is kept under review by 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.

All directors are suitably qualified, trained and experienced so as to be able to participate fully in the work of the board. During 2003 the senior independent director was Vic Cocker. Following his appointment as chairman of the board, John Lovering has been appointed as the senior independent director.

Non-executive directors are appointed for an initial term of three years pursuant to a standard letter of appointment which is available for inspection at the Company's registered office during normal business hours or at the AGM. In July 2003, Vic Cocker entered his second three year term following a review where it was considered that his performance was effective and demonstrated a continued commitment. Details of fees paid to directors during the year are set out on page 22. It is the intention of the board to review non-executive directors' fees during 2004 in view of the increasing time obligations and responsibilities required to fulfil these roles.

The non-executive directors fulfil a key role in corporate accountability and participate fully in the review of strategic proposals, scrutinise performance of management and satisfy themselves on the integrity of financial information to ensure that the interests of shareholders and relevant stakeholders in the Company are safeguarded.

The board meets regularly, in total meeting formally nine times during 2003. All meetings were attended by all directors, with the exception of Stephen Rennie and Tony Wilson who owing to prior commitments attended eight and seven meetings respectively.

During the year, the schedule of matters specifically reserved to the board for decision was reviewed, the current version being approved by the board in January 2004. The schedule clearly states which decisions are to be taken by the board and which are delegated to management. Matters specifically reserved to the board include corporate strategy, acquisition and divestment policy, treasury policy, authorising material capital expenditure, approval of annual budgets and health, safety and environmental policies. Management reports fully to the board at each scheduled board meeting and additionally as required.

The board takes regular account of significant risks to the Group including social, environmental and ethical issues. It has identified and assessed short and long-term risks and ensured that effective systems are in place for management of these risks.

A performance evaluation of the board and its committees was conducted during the year. This consisted of a detailed questionnaire which was completed by all directors including a free format element where directors had the opportunity to provide additional comments and suggestions. The findings were discussed by the chairman and the senior independent director with the non-executive directors, followed by a meeting with the executives. The chairman acted on the results of the evaluation which resulted in several new policies and practices being introduced primarily to improve information flow. A more formal evaluation of the individual directors will be undertaken in 2004. In addition, the directors are encouraged to discuss any issues or concerns with the

Corporate governance

chairman at any time throughout the year.

It is intended that the chairman will formalise the meetings with the non-executive directors which are held without the executives being present. The senior independent director will lead a meeting of the non-executives to review the chairman's performance.

The board has established the following committees which it has delegated specific responsibilities to as described below. Each committee has written terms of reference which were reviewed during the course of the year. The board approved the latest version in January 2004. The audit committee has been renamed the audit and risk committee as this better reflects the responsibilities delegated to it. The terms of reference are available on the corporate website (www.agafoodservice.com) or available on request in writing to the company secretary.

Audit and risk committee

The audit and risk committee was chaired by Kit Farrow until March 2003 and since then has been chaired by John Lovering who is considered by the board to have significant recent and relevant financial experience. Membership of the audit and risk committee now comprises all the independent non-executive directors. The chairman of the board is not a member of the audit and risk committee. The committee met on three occasions during the year and all of the meetings were attended by all of the committee members. Management, the Group's internal and external auditors and other persons may be invited to attend the meeting as appropriate.

The committee reviews the effectiveness of internal controls and monitors the integrity of the Company's interim and annual financial statements before submission to the board for approval. The committee receives reports from the external and internal auditors and specialists from within the Group.

The audit and risk committee recognises that there are occasions when it is advantageous to use the auditors for non-audit work due to their knowledge and understanding of the Group. Thus the committee has developed a formal policy on audit and non-audit services to help ensure that 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 and the audit and risk committee chairman is required to authorise non-audit work above a pre-agreed threshold. Note 3 to the accounts provides a breakdown of audit and non-audit fees during the year under review and for the prior year. Whilst the necessity of re-tendering is being kept under review, the committee confirms it is satisfied with the level of fees, independence, objectivity and effectiveness of the external auditors and has recommended reappointment of the auditors to the board. Accordingly, Resolution 10 will propose the reappointment of PricewaterhouseCoopers LLP as auditors to the Company at the forthcoming AGM.

Internal control and risk management

The board is responsible for the Group's systems of internal controls, including internal financial control, operational and compliance controls and risk management and for monitoring the effectiveness of these controls. The board confirms that it has established procedures necessary to implement the Guidance for Directors on the Combined Code. The meeting calendar and agenda of the board ensure that risk management and internal control are considered on a regular basis throughout the year and are subject to continuous review and development. Grange, an associate of the Group, is not dealt with as part of these internal control procedures.

Throughout the Group's operations, regular management and board meetings review all aspects of the Group's businesses, including those where there are potential risks to the Group. Key procedures include planning, budgeting and investment appraisal. All operations have quarterly reviews with the executive directors to discuss significant risks, business performance and strategy.

Systems of internal control are designed to provide reasonable, but not absolute assurance that the Group's assets are safeguarded and that the financial information and accounting records are reliable.

The board has reserved, for its own approval, those major decisions considered significant to the strategy and operation of the Group as a whole. A control structure is in place throughout the Group which requires at least two appropriate levels of authorisation for other decisions which have a major financial implication for the businesses concerned. Continual monitoring of the systems of internal financial control is the responsibility of all management teams.

The Group has clearly defined guidelines for the appraisal, approval and monitoring of acquisitions and divestments, major capital investments and restructuring costs. These include budgets (covering quantification of benefits), detailed review and monitoring procedures, specific levels of expenditure authority and due diligence where businesses are being acquired.

The board has approved operating policies and controls for the Group's treasury activities and receives regular information about them. In addition, the audit and risk committee and the board receive regular reports on the

Corporate governance

Group's insurance and risk management programmes.

The head of the Group's internal audit department reports to the group finance director and has access to the chairman of the audit and risk committee. The department has an annually agreed programme, which is approved by the audit and risk committee. The external auditors consider the systems of internal financial control, in conjunction with the internal auditors, to the extent necessary to express their audit opinion. Internal and external auditors report regularly on the results of their work to management, including executive members of the board, and to the audit and risk committee. The board will continue to review the effectiveness of the Group's internal financial control systems.

An ongoing process for identifying, evaluating and managing significant risks has been in place for the year under review as required by the Turnbull Guidance. Following a review of risk across the Group, the basis for assessing relevant risks was agreed and disseminated. This ensures that appropriate risk reviews are carried out at each business, taking account of the likelihood of occurrence and degree of impact. Risks considered include operational and financial contingencies and compliance with legal, regulatory and CSR issues. A full risk and control assessment has been prepared in respect of the year to 31st December 2003 and will be updated during 2004.

Arrangements are in place by which employees may, in confidence, raise concerns about the possible improprieties of financial reporting and other matters.

Nomination committee

During the year, the nomination committee was chaired by Kit Farrow. Since his retirement in January 2004, it has been chaired by Vic Cocker. Membership comprises the independent non-executive directors and the chief executive. The committee met four times during the year. All of the meetings were attended by all of the committee members.

The committee is responsible for ensuring there is a formal and transparent procedure for the nomination and appointment of directors and committee members and for ensuring that the board is the appropriate overall size and composition. The committee recommends, for approval by the full board, candidates to fill vacancies who have the appropriate skills and attributes. The committee encourages candidates to carry out due diligence on the Company and informs them of the expected time commitments and responsibilities, to help nominees to successfully commit to fulfilling their role.

All directors receive induction information on joining the board and the Company provides regular updates appropriate to the business throughout the year. Directors are encouraged to seek clarification where necessary. The Company provides resources for developing and updating its directors' knowledge and capabilities as required.

Prior to each appointment, the committee considers the appropriate skills required to maintain a broad and balanced level of expertise on the board. A job specification is drafted including anticipated time requirements for the role. The committee has used external search consultants and taken into consideration the recommendations of members and other external bodies in the process of considering candidates. The committee did not use an external search consultant or open advertising for the appointment of the current chairman as it considered that Vic Cocker had the appropriate experience, skills, knowledge of the business and sufficient time available to devote to the role. The current chairman was independent at the time of his appointment. The other current significant commitments of the chairman are described in his biography on page 14. The board is formalising its succession planning policy to ensure an appropriate balance of skills and experience is maintained at board and senior management level.

Remuneration committee

During the year the remuneration committee was chaired by Vic Cocker. From February 2004 it has been chaired by Peter Tom. Membership comprises the independent non-executive directors. The committee met four times during the year and all of the meetings were attended by all of the committee members. The detailed Remuneration report is set out on pages 21 to 24.

Risk factors

As described above, risks are identified, managed and brought to the attention of the board through the Company's risk management process. This process has identified no specific risks which might have a material impact on the business. Risk assessment of CSR issues was introduced in 2002 and whilst the board is confident of the Group's CSR risk position, as the Group expands, the review of CSR issues in the supply chain is on-going.

Communications with shareholders

Meetings are held between directors of the Company and major institutional shareholders at regular intervals as part of the Company's investor relations programme, and as necessary in relation to specific issues. Feedback from institutional investors is regularly reported to the board. The senior and other independent non-executive directors make themselves available to meet with shareholders if

Corporate governance

requested, but no such meetings were held during 2003.

Notice of the AGM and related papers are sent to shareholders at least twenty working days before the meeting. Separate resolutions are proposed at the AGM on each substantive issue. Shareholders attending the AGM are entitled to ask questions and to meet with directors after formal proceedings have ended. The chairmen of the board, audit and risk, remuneration and nomination committees are available at the AGM to answer questions together with their fellow directors. At the AGM proxy votes are announced by the chairman and are on the basis of one share one vote.

In the annual and interim reports, AGM statement, results presentations and in Stock Exchange announcements generally, the Company seeks to present an accurate, objective and balanced view in a style and format which is appropriate for the intended audience. In addition to websites maintained by its individual businesses, the Company has a website on which it presents information about the Group (www.agafoodservice.com).

Shareholders may contact the chairman, senior independent director or other non-executive directors by e-mail to ir@agafoodservice.com to ask questions or raise any issues or concerns.

Remuneration report

This report has been prepared by the remuneration committee on behalf of the board in accordance with the requirements of the Directors' Remuneration Report Regulations 2002 and the Listing Rules of the Financial Services Authority. The Company has complied throughout the year under review with the provisions of the 1998 Combined Code on Directors' Remuneration. In accordance with the Regulations, resolution 9 invites the members to receive and adopt the remuneration report for the financial year ended 31st December 2003.

Remuneration committee

The committee is responsible for ensuring that remuneration of executive directors is sufficient to attract, retain and motivate directors of the quality to run the Company and is reasonable and fair in comparison with other companies of broadly similar size and range of activities. During 2003, Hewitt Bacon & Woodrow have continued to advise the committee on remuneration policy and practice and has assisted with the total shareholder return ('TSR') performance measurement.

Remuneration policy

The remuneration committee determines the contracts of service, emoluments of executive directors, the company secretary and the fees of the chairman. The board as a whole reviews the fees of the non-executive directors. Executive directors' emoluments comprise annual salary, a discretionary annual bonus, personal pension plans, participation in long-term incentive plans and other benefits. None of the executive directors serves as a non-executive director at any other publicly quoted company. The committee ordinarily reviews directors' salaries annually effective from 1st January, taking into account market rates and the performance of the individual and of the Company. Policies for benefits (which include company cars and private health insurance) are reviewed regularly and comparisons with other companies are made. Reports and published data from consultants are also taken into consideration in setting salary and benefits packages.

In 2002, the remuneration committee received independent external advice from Hewitt Bacon & Woodrow and on this basis established a salary and bonus package for the executive directors which would represent a competitive level taking account of the experience of executive directors and the Group's strategic and operational objectives. In this review, full account was taken of information provided by other UK listed companies, in relation to which data is obtained from leading external consultancy sources. On the basis of the advice received from Hewitt Bacon & Woodrow, it was agreed that the executive directors' salaries would be increased to a benchmark level over a two year period.

The structure of remuneration for each of the executive directors under the policy (excluding pensions) comprises base salary and benefits totalling 50% and short, medium and long term incentives which are subject to performance conditions comprising 50% of total remuneration (for on target performance).

Remuneration in 2003

The individual elements of remuneration of each director are set out in the table on page 22.

Annual bonus

Executive directors participate in a performance-related annual bonus scheme. Bonuses are payable based on performance measured in three key areas, each

Remuneration report

	Salary £000	Fees £000	Salary in lieu of *pension* above earnings cap £000	Benefits in-kind £000	Annual bonus £000	2003 Total £000	2002 Total £000
W B McGrath	335	–	52	24	67	478	501
S Rennie	256	–	–	2	47	305	318
S M Smith	204	–	19	2	37	262	265
J A George (appointed July 2003)*	94	–	–	2	9	105	–
C J Farrow (retired January 2004)	–	75	–	–	–	75	75
V Cocker	–	25	–	–	–	25	25
A J Wilson	–	25	–	–	–	25	25
B A Nielsen (resigned January 2003)	–	2	–	–	–	2	25
J D Lovering (appointed March 2003)	–	20	–	–	–	20	–
H M Mahy (appointed March 2003)	–	20	–	–	–	20	–
Total	**889**	**167**	**71**	**30**	**160**	**1,317**	**1,234**

* Judy George's remuneration is paid by Domain Inc, a subsidiary company in the US and covers the period from appointment to the board. Exchange rate £1 = $1.79 (31st December 2003).

- The salary figures for S Rennie and S M Smith include cash allowance in place of company car and fuel.
- Benefits in kind comprise car, fuel, private health care and life assurance.
- There were no taxable expenses in 2002 & 2003 for any directors.

contributing to a maximum bonus of 60% of salary. These objectives comprise improvement in earnings per share on the prior year to budget (awarded on a sliding scale up to 24%); improvement in earnings per share in excess of budget (up to 12%) and progress on a range of strategic parameters, including return on investment targets, increasing foodservice sales from cross selling initiatives, raising global brand awareness and other strategic targets (up to 24%).

Judy George participates in an annual bonus scheme with Domain Inc. where subject to achieving performance against set business objectives a maximum bonus of up to 30% of salary may be awarded. On appointment to the board, it was agreed that Judy George would be eligible for 50% of the executive bonus scheme outcome, i.e. a maximum bonus of 30%, therefore enabling her to achieve a bonus equal to 60% of salary as per the other executive directors.

Based on the performance criteria outlined, a bonus award of 20% of salary is payable to executives in respect of 2003. Judy George received 5% under the executive bonus scheme but did not receive any bonus award under the 2003 Domain scheme. Details of annual bonuses paid in respect of 2003 are set out in the table above.

Long-Term Incentive Plan (the 'LTIP')

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, based on the achievement of performance criteria set out further below.

Awards are made to senior management up to a maximum annual value of 100% of salary. This provides a balance between short-term and long-term incentive arrangements and also aligns the long-term interests of senior management and shareholders.

The actual percentage of shares they can acquire will depend on two performance criteria. Firstly on a comparison of the Company's TSR with the TSR of companies in 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; if the Company's TSR is at the midpoint, 25% of the shares can be acquired; if the Company's TSR is below midpoint, none 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 midpoint. Clifford Chance LLP provided advice to the committee on the LTIP. During the year the Company has reviewed whether the vesting targets are sufficiently challenging. Our advisers, Clifford Chance LLP, indicate that the vesting targets are in line with market practice and remain appropriate, taking into account the remuneration package as a whole. Awards made in 2003 were limited to 40% of salary and details are stated in the

Remuneration report

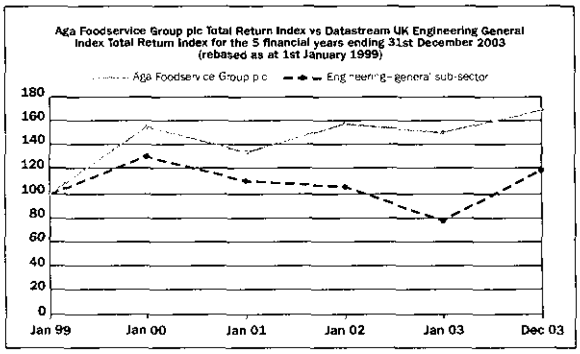

table on page 23.

The TSR performance measure has been applied on the basis of best practice and advice provided by external consultants. The Datastream UK Engineering General Index was considered to be the most relevant index for comparison as it has the same classification as the FTSE Engineering General Sub-sector, which constitutes a comparable group of companies to the Company.

Secondly, none of the shares can be acquired unless the remuneration committee determines that there has been a sustained improvement in the underlying financial performance of the Company during the performance period. Participants in the LTIP may not participate in option grants under the Aga Foodservice Group 1994 Senior Executive Share Option Scheme.

Share options

No share options have been granted to executive directors under the 1994 Senior Executive Share Option Scheme since 1998 as awards were made to executive directors under the LTIP. This continues to reflect the commitment made to shareholders when they approved the introduction of the LTIP.

	Options under the 1994 Senior Executive Share Option Scheme approved in 1994			**Options under the Savings-Related Share Option Schemes approved in 1994**	**Long-Term Incentive Plan approved in 1999 Price shown is at date of award**	
	at 288pps	**at 321pps**	**at 225pps**	**at 199pps**	**at 268pps**	**at 235pps**
W B McGrath						
At 1st January 2003	–	175,000	–	8,479	111,940	–
granted 13th October 2003	–	–	–	–	–	57,021
At 31st December 2003	–	175,000	–	8,479	111,940	57,021
S Rennie						
At 1st January 2003	75,000	–	–	–	76,492	–
granted 13th October 2003	–	–	–	–	–	40,000
At 31st December 2003	75,000	–	–	–	76,492	40,000
S M Smith						
At 1st January 2003	7,500	–	30,000	–	109,701	–
granted 13th October 2003	–	–	–	–	–	31,489
At 31st December 2003	7,500	–	30,000	–	109,701	31,489
J A George						
At 1st July 2003 (date of appointment)	–	–	–	–	–	–
granted 13th October 2003	–	–	–	–	–	34,214
At 31st December 2003	–	–	–	–	–	34,214
Option grant date	**2 Apr 97**	**5 May 98**	**21 Sep 99**	**15 Oct 99**	**25 Apr 02**	**13 Oct 03**
Exercisable period	**2 Apr 00 to 1 Apr 07**	**5 May 01 to 4 May 08**	**21 Sep 02 to 20 Sep 09**	**1 Dec 04 to 31 May 05**	**25 Apr 05 to 24 Apr 12**	**13 Oct 06 to 12 Oct 13**

As part of the acquisition of Domain Inc. in March 2002, Judy George has an option to receive 383,446 shares in Aga Foodservice Group plc as part of her deferred cash payment of $1.3m detailed in note 20. The option price is 237p and is exercisable on 1st April 2005 subject to continued employment.

Remuneration report

	Directors' Remuneration Report Regulations 2002					Listing Requirements	
	Accrued pension at 31 Dec 03 £000pa	*Increase in* accrued pension over the *year* £000pa	*Transfer* value of accrued pension at 31 Dec 02 £000	*Transfer* value of accrued pension at 31 Dec 03 £000	Increase/ (decrease) in transfer *value over* the year, net of director's contributions *(note 1)* £000	Increase in *accrued* pension over the year (net of *inflation)* £000pa	Transfer value of increase in accrued *pension over* the year, net of director's contributions *(note 2)* £000
W B McGrath	19	3	100	162	59	3	24
S Rennie	121	22	856	1,468	606	21	239
S M Smith	29	3	163	239	73	2	14

note 1 reflects the comparison of the transfer value of the accrued pensions at start and end of the period.
note 2 reflects the transfer value of the increase in the accrued pension over the period only.

The Company is currently conducting a review of the Senior Executive and Savings-Related Share Option Schemes, and is considering the most effective methods of remunerating, motivating and encouraging employees' closer involvement in the success of the Group. The existing schemes lapse in May 2004. The Company is not seeking shareholder approval for new schemes at the present time. Options granted under the 1994 Senior Executive Share Option Scheme during 2003 are only exercisable if the Company's earnings per share, calculated on the basis suggested by the Institute of Investment Management and Research, have exceeded 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. During 2003, the performance criteria was made more challenging and brings the scheme into line with established best practice. The options concerned are ordinarily exercisable in the periods set out in the table on page 23.

The mid-market price of Aga Foodservice Group plc ordinary shares at the beginning and end of the year was 205p and 215p respectively. During the year the market price of the shares ranged between 162.5p and 251.25p.

The interests of directors at the beginning and end of the 2003 financial year in the currently operating share option schemes were as stated in the table on page 23.

Pensions

William McGrath, Stephen Rennie and Shaun Smith are members of a defined benefit pension scheme. For members not subject to the statutory earnings cap this provides for a pension of two-thirds of final pensionable remuneration on retirement at normal retirement age with 20 or more years of pensionable service. The pensions of William McGrath and Shaun Smith are subject to the statutory earnings cap and they receive certain additional remuneration as detailed in the table on page 22.

The increase in the transfer value of the directors' pensions, after deduction of contributions paid by them, is shown in the table above. The transfer values shown are not payable to the individuals concerned. During the year the Company paid premiums of £748 and £341 to provide life assurance cover on that part of William McGrath's and Shaun Smith's earnings above the Inland Revenue cap for the year.

Judy George's salary is paid by Domain Inc, a subsidiary company in the US and retirement benefit arrangements are also arranged in the US. The scheme in place is a money purchase plan and all contributions are made by Judy George personally and there are no company contributions.

Service contracts

The remuneration committee has established and implemented a policy to align the normal notice period of all the executive directors with the best practice provisions set out in the Combined Code. Accordingly, all the executives' service contracts have a notice period of one year. The remuneration committee does not consider it to be in the best interests of shareholders for directors' contracts to provide explicitly for predetermined compensation in the event of termination and accordingly none of the contracts contains any such provision.

By order of the board
P W G Tom
Chairman of the remuneration committee
Solihull
19th March 2004

Corporate social responsibility

As highlighted in previous annual reports, the board recognises the importance of corporate social responsibility (CSR) and the Group aims to fulfil its responsibilities to its stakeholders including shareholders, employees, customers, suppliers and the communities in which the Group's businesses operate. The board made a clear commitment to operate all its business activities with high standards of business ethics and integrity in its Statement of Core Principles. This was issued by the chief executive in December 2001, is regularly reviewed, and is available on our website. The statement is supported by appropriate policies in each area. The board has overall responsibility for ensuring that these CSR policies are regularly reviewed and verified, and the chief operating officer is responsible for their implementation. The board takes regular account of significant social, environmental and ethical matters. As reported under corporate governance, short and long-term risks associated with these matters are regularly assessed.

The Group is to publish its first CSR Report in April 2004. This provides examples of how policies and practices are being developed around the Group, provides key statistics and targets and highlights some of the local community and charity initiatives in place. The Group plans to broaden and deepen its CSR reporting in the future. The report is available on the website.

Aga Foodservice Group is a member of the FTSE4Good index.

Employment

The Group's operations are mainly carried out by its operating subsidiaries and responsibility for employment matters resides primarily with individual businesses. However, the Group requires its operating subsidiaries to comply with its equal opportunities policy which stipulates that policies be followed throughout the Group to ensure that there is equal opportunity of employment, retention, promotion and training regardless of race, ethnic or national origin, gender, marital status, sexual orientation, religion, trade union membership or disability and that appropriate consideration is given to disabled applicants in terms of employment.

Employees are kept informed of developments across the Group by a variety of means. These include a Group newsletter, 'The Aga Times', which is updated online and is distributed regularly to employees. In addition, a number of the Group companies have their own newsletters. Business unit management also hold briefing sessions for their local workforces and employees are encouraged to access the Group's websites and local Intranet.

The Group's Code of Conduct for employees outlines the standards of integrity and honest conduct expected. The Group's whistle-blowing policy enables UK employees to report in confidence any breaches of the Code of Conduct, fraud or any other criminal acts to an external party. This is in addition to existing designated internal contacts available to employees worldwide. The Group is currently reviewing external party contacts for non-UK operations.

The Group has an established UK Human Resources Forum, attended by representatives of the operating businesses. Topics covered during the year include an update on current and future developments in employment law, grievance and disciplinary procedures, appraisal systems, recruitment and selection techniques and other current HR issues. There are equivalent HR structures in our key non-UK businesses.

Health, safety and environmental

The Group regards environmental and health and safety matters as of key importance for its stakeholders and is committed to the continuous improvement of its performance in these areas. The Group aims to achieve high standards of health and safety and of environmental protection and seeks to keep all concerned aware of best practice and the statutory frameworks. The chief operating officer is responsible for the overall implementation of the Group's environmental and health and safety policies, and the senior managers with responsibility for these issues report directly to him on these matters.

Detailed environmental and health and safety policies have been adopted within each of the Group's operations, with business unit managers responsible for implementation. 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.

To help leverage best practice and to drive progress, the Group has a European health, safety and environmental committee and a separate US network co-ordinator. The committee meets regularly to review standards, set targets for improvement and to promote best practice. In 2003 the focus has been on standardising documentation and data collection.

The health, safety and environmental committee has developed a system of internal audits using health and safety specialists to benchmark across operations. These audits are currently being extended to include environmental and other CSR topics. External consultants are utilised when specific needs arise.

The Group monitors reportable and non-reportable accidents at all operating units and sets annual

Corporate social responsibility

improvement targets. All UK businesses are now members of the British Safety Council and the Group benchmarks its UK accident statistics against industry standards. The Group is currently reviewing benchmarking in Europe and the US. Accident and lost time statistics are available in our CSR Report.

The Group's environmental policy sets out the principles for enhancing environmental performance, minimising impact and of maximising efficiency. This framework forms the basis of detailed policies that are adopted by and are appropriate to the activities of individual businesses.

The Group monitors key environmental indicators and specific improvement targets are being developed to help minimise the environmental impact of any aspect of the Group's operations. These targets, and progress in meeting them, are fully reported in the CSR Report.

The Group's environmental impact covers a range of areas, such as energy use, water consumption, transport, waste and recycling, due to both our manufacturing processes and non-manufacturing usage and the performance of our products.

The Group supports the adoption and implementation of environmental management systems at its operating businesses where this is considered to provide added value. The Rangemaster sites at Leamington Spa and Long Eaton were accredited to ISO 14001 in March 2003. Falcon Foodservice and Williams Refrigeration are working towards accreditation. Further information on these and other initiatives can be found in the CSR Report.

In 2003, the Company introduced a Group environmental award to encourage employees to suggest areas where environmental practice could be improved. Vic Cocker reviewed the submissions and presented prizes to the winning employees and heard how their submissions were being implemented to contribute to improving environmental practice and to resource efficiency within the Group.

In addition to 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 the relevant regulatory authorities would be notified. During the year, there were no fines or prosecutions as a result of environmental incidents.

Customers

The Group recognises that its customers in both the public and private sector want substantive progress from their suppliers to help meet the targets they are setting themselves on CSR issues. These targets vary, but include development of products that reduce costs and waste, raise standards, are more energy efficient and improve the working environment.

The Group has been working with its customers and using its know-how to address these challenges. Accordingly, the Group has increased its investment in research and development and has a new generation of products ready to market. These include the Infinity Fryer which has been developed by Falcon and uses Rayburn pre-mix burner and heat transfer technology (see www.infinityfryers.com for further information). In addition, Williams is developing highly cost competitive glycol refrigeration systems, with lower running costs and lower heat emissions into kitchens helping to create a better working environment.

Supply chain – ethical trading code

The board recognises the importance of managing the supply chain to ensure, so far as is practicable, that its direct and indirect suppliers adopt the same core principles as the Aga Foodservice Group. The Group introduced an Ethical Trading Code 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 code, monitor any areas of non-conformance and take action where appropriate. As the Group develops and expands, this monitoring process is necessarily on-going, as already noted under Risk Factors in the corporate governance section.

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. Liaison on community issues is encouraged and comments are logged, responded to and reviewed at Group level.

Verification

Aga Foodservice Group has instituted a regular review of its CSR policies, and in March 2002 appointed CSR Consulting Ltd to assist the Company in evaluating its current policies and procedures and reinforce the Group's commitment to corporate social responsibility. At present the board does not believe that an overall external CSR audit would be appropriate but where significant issues are identified utilises external specialists.

Group profit and loss account

For the year ended 31st December

	Notes	2003 £m	2002 Restated £m
Turnover			
Continuing operations		**382.0**	
Acquisitions		**8.3**	
Total continuing operations		**390.3**	323.3
Discontinued operations		**2.1**	7.0
Total turnover	2 & 3	**392.4**	330.3
Operating profit			
Continuing operations		**33.0**	
Acquisitions		**0.7**	
Total continuing operating profit before goodwill amortisation		**33.7**	31.4
Goodwill amortisation		**(8.0)**	(6.5)
		25.7	24.9
Continuing operations		**25.1**	24.9
Acquisitions		**0.6**	–
Total continuing operations		**25.7**	24.9
Discontinued operations		**(0.5)**	(0.5)
Total operating profit	2 & 3	**25.2**	24.4
Disposal of businesses	23	**1.8**	–
Profit before interest and tax		**27.0**	24.4
Net interest receivable	6	**0.9**	3.2
Profit on ordinary activities before tax		**27.9**	27.6
Tax on profit on ordinary activities	7	**(5.6)**	(7.4)
Profit on ordinary activities after tax		**22.3**	20.2
Equity minority interests	22	**(0.1)**	(0.1)
Profit attributable to shareholders		**22.2**	20.1
Dividends	9	**(9.3)**	(7.8)
Profit retained	21	**12.9**	12.3
Earnings per share	10	**p**	p
Basic		**17.2**	15.6
Diluted		**17.1**	15.6
Basic - *before goodwill amortisation*		**23.3**	20.7

Notes to the accounts are on pages 32 to 54.

Supplementary statements

For the year ended 31st December

Statement of total recognised gains and losses

	Notes	2003 £m	2002 Restated £m
Profit attributable to shareholders		**22.2**	20.1
Exchange adjustments on net investments	21	**(3.2)**	(3.3)
Total recognised gains and losses relating to the year		**19.0**	16.8
Prior year adjustment	21	**1.1**	–
Total recognised gains and losses since last annual report		**20.1**	16.8

Note of historical cost profit

	Notes	2003 £m	2002 Restated £m
Reported profit before tax		**27.9**	27.6
Realisation of property revaluation gains of previous years		**0.6**	2.8
Historical cost profit on ordinary activities before tax		**28.5**	30.4
Tax on profit on ordinary activities	7	**(5.6)**	(7.4)
Equity minority interests	22	**(0.1)**	(0.1)
Dividends	9	**(9.3)**	(7.8)
Historical cost profit retained		**13.5**	15.1

Reconciliation of movements in shareholders' funds

		Notes	2003 £m	2002 Restated £m
Total recognised gains and losses relating to the year			**19.0**	16.8
Dividends		9	**(9.3)**	(7.8)
New share capital subscribed	- share premium	21	**-**	3.2
	- share capital	20	**0.1**	0.4
Future share scheme issues		20	**0.4**	0.2
Net increase in shareholders' funds			**10.2**	12.8
Shareholders' funds at 1st January (2002: originally £258.4m before prior year adjustment of £0.5m)			**271.7**	258.9
Shareholders' funds at 31st December			**281.9**	271.7

Notes to the accounts are on pages 32 to 54.

Balance sheets

As at 31st December

	Notes	Group 2003 £m	Group 2002 Restated £m	Company 2003 £m	Company 2002 £m
Fixed assets					
Intangible assets	11	**140.7**	139.3	**–**	–
Tangible assets	12	**73.2**	62.2	**–**	–
Investments	13	**5.8**	2.8	**498.7**	466.7
Total fixed assets		**219.7**	204.3	**498.7**	466.7
Current assets					
Stocks	14	**61.3**	52.0	**–**	–
Debtors	15	**102.7**	93.1	**627.7**	288.3
Cash at bank and in hand	17	**52.0**	78.8	**33.3**	61.3
Total current assets		**216.0**	223.9	**661.0**	349.6
Creditors – amounts falling due within one year					
Operating creditors	16	**(88.9)**	(89.6)	**(530.8)**	(213.1)
Borrowings	17	**(2.2)**	(22.5)	**(1.2)**	(21.9)
Tax and dividends payable	16	**(9.5)**	(7.5)	**(6.5)**	(5.3)
Total amounts falling due within one year		**(100.6)**	(119.6)	**(538.5)**	(240.3)
Net current assets		**115.4**	104.3	**122.5**	109.3
Total assets less current liabilities		**335.1**	308.6	**621.2**	576.0
Creditors – amounts falling due after more than one year					
Creditors	16	**(2.2)**	(2.4)	**–**	–
Borrowings	17	**(20.2)**	(0.8)	**(18.6)**	–
Provisions for liabilities and charges	19	**(30.4)**	(33.3)	**(18.8)**	(16.3)
Total net assets employed		**282.3**	272.1	**583.8**	559.7
Capital and reserves					
Called up share capital	20	**32.4**	32.3	**32.4**	32.3
Share premium account	21	**59.9**	59.9	**59.9**	59.9
Revaluation reserve	21	**2.4**	3.0	**–**	–
Capital redemption reserve	21	**35.0**	35.0	**35.0**	35.0
Profit and loss account	21	**152.2**	141.5	**456.5**	432.5
Total shareholders' funds		**281.9**	271.7	**583.8**	559.7
Equity minority interests	22	**0.4**	0.4	**–**	–
Total funds		**282.3**	272.1	**583.8**	559.7

The accounts on pages 27 to 54 were approved by the board of directors on 19th March 2004 and were signed on its behalf by:

W B McGrath **Chief Executive** William McGrath

S M Smith **Finance Director** Shaun Smith

Notes to the accounts are on pages 32 to 54.

Group cash flow statement

For the year ended 31st December

	Notes	2003 £m	2003 £m	2002 Restated £m	2002 Restated £m
Net cash inflow from operating activities			**23.9**		22.0
Returns on investments and servicing of finance			**0.9**		3.9
Tax paid			**(5.2)**		(7.8)
Capital expenditure and product development			**(20.5)**		(8.9)
Acquisitions and disposals	23		**(16.1)**		(43.3)
Equity dividends paid			**(8.1)**		(6.7)
Net cash outflow before financing			**(25.1)**		(40.8)
Financing					
- issue of ordinary share capital	24	**0.1**		3.8	
- decrease in debt	24	**(1.7)**		(41.5)	
Net financing			**(1.6)**		(37.7)
Decrease in cash in the year	25		**(26.7)**		(78.5)

Reconciliation of net cash flow to movement in net cash

	Notes	2003 £m	2003 £m	2002 Restated £m	2002 Restated £m
Decrease in cash in the year	25	**(26.7)**		(78.5)	
Decrease in debt	24	**1.7**		41.5	
Change in net cash resulting from cash flows	25		**(25.0)**		(37.0)
Borrowings acquired with acquisitions	23		**(0.4)**		(24.6)
Loan notes cancelled for acquisitions			**-**		0.3
Exchange adjustments	25		**(0.5)**		0.7
Decrease in net cash			**(25.9)**		(60.6)
Opening net cash			**55.5**		116.1
Closing net cash			**29.6**		55.5

This statement should be read in conjunction with the reconciliations on page 31.

Notes to the accounts are on pages 32 to 54.

Group cash flow statement - reconciliations

For the year ended 31st December

Reconciliation of operating profit to net cash inflow from operating activities

	Notes	2003 £m	2002 Restated £m
Operating profit		**25.2**	24.4
Intangibles amortisation	11	**8.3**	6.6
Depreciation	3	**8.1**	6.7
Profit on disposal of fixed assets	3	**(1.5)**	(1.2)
(Increase) / decrease in stocks		**(7.5)**	0.6
(Increase) / decrease in debtors		**1.7**	(13.9)
Increase / (decrease) in creditors		**(4.5)**	2.0
Increase / (decrease) in provisions		**(5.9)**	(3.2)
Net cash inflow from operating activities		**23.9**	22.0

Operating cash flows relating to acquisitions and disposals are shown in note 23.

Returns on investments and servicing of finance

	Notes	2003 £m	2002 £m
Net interest receivable	6	**0.9**	3.2
Movement in prepayments and accruals		**-**	0.7
Net interest received		**0.9**	3.9
Interest received		**1.7**	5.0
Interest paid		**(0.8)**	(1.1)
Net cash inflow from returns on investments and servicing of finance		**0.9**	3.9

Capital expenditure and product development

	Notes	2003 £m	2002 Restated £m
Product development	11	**(2.7)**	(0.7)
Purchase of tangible fixed assets	12	**(18.0)**	(14.8)
Sale of tangible fixed assets		**0.2**	6.6
Net cash outflow from capital expenditure and product development		**(20.5)**	(8.9)

Notes to the accounts are on pages 32 to 54.

Notes to the accounts

1 Accounting policies

Basis of accounting

The accounts are prepared under the historical cost convention, except where adjusted for revaluations of certain fixed assets, and in accordance with applicable Accounting Standards.

During the year the directors have reviewed the appropriateness of the accounting policies and considered it more appropriate to take the option to capitalise development costs under SSAP 13.

Adoption of new accounting standards

The transitional arrangements of FRS 17 have been adopted which has prompted additional disclosure but does not represent a change in accounting policy.

Basis of consolidation

The consolidated profit and loss account 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 consolidated accounts also include the Group's share of post-acquisition earnings and net assets of associated undertakings.

Acquisitions

Shares issued as consideration for the acquisitions of companies have a fair value attributed to them, which is normally their market value at the date of acquisition. Net tangible assets acquired are consolidated at a fair value to the Group at date of acquisition. All 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 profit and loss account or the statement of recognised gains and losses as appropriate. In the Company accounts, where advantage can be taken of the merger relief rules, shares issued as consideration for acquisitions are accounted for at nominal value.

Goodwill

From 1998, goodwill, being the difference between the fair value of the purchase consideration and the fair value of the assets acquired, has been capitalised in the accounts as goodwill and then amortised on a straight line basis over its estimated useful life, not exceeding 20 years.

Goodwill arising on acquisitions prior to 1998 has been written off to reserves. This goodwill will be charged in the profit and loss account as part of any profit or loss of any subsequent disposal of the business to which it relates.

Turnover

Turnover which excludes value added tax and intra-group sales represents the invoiced value of goods and services sold to customers.

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 SSAP 24. Where appropriate the pension cost has been allocated to disposal provisions previously set up for that purpose.

Research and development

Development expenditure is capitalised when a clear, commercially viable future for that development is confirmed and is amortised over the life of the project, limited to a maximum of five years, following its commercial production. This represents a change of accounting policy as previously all research and development costs were expensed as incurred. All other research and development expenditure is written off in the year in which it is incurred. The 2002 comparatives have been restated to account for this prior year adjustment.

Tangible fixed assets

Following the adoption of FRS 15 in 2000 the Group has changed its accounting policy and no longer revalues its fixed assets every 5 years. Depreciation is provided on tangible fixed assets, 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 over its expected useful life as follows:

i. Freehold buildings over 50 years.

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

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

Leases

Assets held under finance leases and hire purchase contracts are integrated with owned tangible fixed assets and the obligations relating thereto, excluding finance charges, are included in borrowings. Finance costs are charged to the profit and loss account over the contract term to give a constant rate of interest on the outstanding balance. Costs in respect of operating leases are charged in arriving at the operating profit.

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 from leased assets is credited to the profit and loss account on an accruals basis.

Stocks and long-term contracts

Stocks 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. Full provision is made for obsolete and slow moving items.

Notes to the accounts

1 Accounting policies (continued)

The amount by which recorded turnover is in excess of payments on account is included in debtors as amounts recoverable on long-term contracts.

Borrowings

All financial instruments with a cost to the Group, with the exception of share capital, have been included in borrowings. Consequently finance leases and bills of exchange, which have a cost to the Group, are included in net borrowings. The cost of bills of exchange and finance leases has been included in net interest. Borrowings are shown net of the associated finance costs, which are amortised to the profit and loss account over the life of the borrowings.

Foreign currencies

The profit and loss account items of overseas subsidiaries and related companies are translated into sterling using average exchange rates. Assets and liabilities in foreign currencies including goodwill arising on acquisitions are translated at the mid-market rates of exchange ruling at the balance sheet date unless matched by forward contracts. Where the translation of overseas subsidiaries and associated undertakings, net of any foreign currency borrowing used to finance them, gives rise to an exchange difference, this is taken directly to reserves. Other exchange differences are dealt with through the profit and loss account.

Financial instruments

The principal derivative instruments utilised by the Group are interest rate swaps and forward rate agreements. These instruments are used for hedging purposes in line with the Group's risk management policy and no trading in financial instruments is undertaken. Interest differentials are taken to net interest receivable in the profit and loss account, and premiums and fees are amortised at a constant rate over the life of the underlying instrument.

Government grants

Grants relating to fixed assets are treated as deferred income and are transferred to revenue in equal amounts over the life of the assets.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements.

In the holding company and its subsidiaries the liability is assessed with reference to the individual company. On consolidation the liability is assessed with reference to the Group as a whole.

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. Deferred tax is measured on a non-discounted basis.

Notes to the accounts

2 Segmental analysis

By business group	2003 Turnover £m	2003 Operating profit £m	2003 Net operating assets £m	2002 Restated Turnover £m	2002 Restated Operating profit £m	2002 Restated Net operating assets £m
UK & European Consumer	**154.2**	**17.5**	**50.7**	137.1	14.5	50.5
US Consumer	**50.4**	**0.6**	**9.3**	36.5	2.7	2.4
UK & European Foodservice	**143.3**	**8.9**	**66.9**	106.7	9.5	48.9
US Foodservice	**42.4**	**5.4**	**8.2**	43.0	3.5	6.1
Total continuing operations	**390.3**	**32.4**	**135.1**	323.3	30.2	107.9
Other items	**–**	**1.3**	**–**	–	1.2	–
Goodwill	**–**	**(8.0)**	**137.2**	–	(6.5)	138.2
Discontinued operations	**2.1**	**(0.5)**	**(10.6)**	7.0	(0.5)	(18.3)
Total Group	**392.4**	**25.2**	**261.7**	330.3	24.4	227.8

An analysis of net operating assets by category of asset is given on page 56.

Turnover between business groupings is immaterial. Goodwill amortisation on continuing operations relates to UK & European Consumer £1.6m (2002: £1.6m), US Consumer £0.6m (2002: £0.4m), UK & European Foodservice £4.4m (2002: £3.2m) and US Foodservice £1.4m (2002: £1.3m).

US Consumer includes acquisition turnover of £8.3m and operating profit before goodwill of £0.7m.

By geographical origin	2003 Turnover £m	2003 Operating profit £m	2003 Net operating assets £m	2002 Restated Turnover £m	2002 Restated Operating profit £m	2002 Restated Net operating assets £m
United Kingdom	**241.7**	**24.9**	**105.2**	229.1	24.0	92.0
North America	**92.8**	**5.5**	**14.7**	79.5	6.2	5.5
Europe	**51.9**	**2.5**	**13.1**	11.0	0.6	8.6
Rest of World	**3.9**	**0.8**	**2.1**	3.7	0.6	1.8
Total continuing operations	**390.3**	**33.7**	**135.1**	323.3	31.4	107.9
Goodwill	**–**	**(8.0)**	**137.2**	–	(6.5)	138.2
Discontinued operations	**2.1**	**(0.5)**	**(10.6)**	7.0	(0.5)	(18.3)
Total Group	**392.4**	**25.2**	**261.7**	330.3	24.4	227.8

Goodwill amortisation on continuing operations relates to United Kingdom £4.6m (2002: £4.6m), North America £2.0m (2002: £1.7m) and Europe £1.4m (2002: £0.2m). Other items, disclosed separately above, relate to the United Kingdom.

Turnover by geographical destination	2003 £m	2003 %	2002 £m	2002 %
United Kingdom	**228.9**	**58.6**	216.9	67.1
North America	**92.0**	**23.6**	78.9	24.4
Europe	**61.6**	**15.8**	19.1	5.9
Rest of World	**7.8**	**2.0**	8.4	2.6
Total continuing operations	**390.3**	**100.0**	323.3	100.0

Notes to the accounts

3 Net operating costs

	2003			2002 Restated		
	Continuing	**Dis-continued**	**Total**	Continuing	Dis-continued	Total
	£m	**£m**	**£m**	£m	£m	£m
Turnover	**390.3**	**2.1**	**392.4**	323.3	7.0	330.3
Less operating (profit) / loss	**(25.7)**	**0.5**	**(25.2)**	(24.9)	0.5	(24.4)
Net operating costs	**364.6**	**2.6**	**367.2**	298.4	7.5	305.9

Net operating costs						
Raw materials and consumables	**155.7**	**0.9**	**156.6**	128.2	4.2	132.4
Staff costs (note 4)	**118.6**	**0.4**	**119.0**	92.9	1.1	94.0
Other operating charges	**69.4**	**1.3**	**70.7**	62.4	2.3	64.7
Change in stocks of finished goods and work in progress	**(4.9)**	–	**(4.9)**	(1.0)	(0.1)	(1.1)
Other operating income	**(6.1)**	–	**(6.1)**	(5.4)	–	(5.4)
Other external charges	**15.8**	–	**15.8**	8.1	–	8.1
Amortisation of goodwill (note 11)	**8.0**	–	**8.0**	6.5	–	6.5
Depreciation of tangible fixed assets (note 12)	**8.1**	–	**8.1**	6.7	–	6.7
Net operating costs	**364.6**	**2.6**	**367.2**	298.4	7.5	305.9

The figures for 2003 include the following amounts which relates to the acquisition of the Northland Corporation during the year:

	£m
Turnover	**8.3**
Less operating profit	**(0.6)**
Net operating costs	**7.7**

Net operating costs	
Raw materials and consumables	**5.2**
Staff costs	**2.3**
Amortisation of goodwill	**0.1**
Depreciation of tangible fixed assets	**0.1**
Net operating costs	**7.7**

Notes to the accounts

3 Net operating costs (continued)

Net operating costs include the following:

	2003 £m	2002 Restated £m
Profit on disposal of tangible fixed assets	**1.5**	1.2
Research and development expenditure	**0.6**	2.5
Amortisation of development costs	**0.3**	0.1
Rentals under operating leases		
- Plant and machinery	**2.6**	2.4
- Other	**7.6**	6.4
Auditors' remuneration		
- Audit services provided by primary auditors (Company £27,000 (2002: £22,000))	**0.3**	0.2
- Other services provided by primary auditors (Includes £0.2m for tax and £0.2m for advisory work)	**0.4**	0.7
Other services received from other professional accountants (Includes £0.4m for tax, £0.2m for internal audit and £0.3m for advisory work)	**0.9**	1.0

4 Employee information

Average number of employees (including directors)	**2003**	2002
UK & European Consumer	**1,888**	1,834
US Consumer	**346**	184
UK & European Foodservice	**2,063**	1,526
US Foodservice	**433**	368
Continuing	**4,730**	3,912
Discontinued	**15**	95
Total	**4,745**	4,007

	2003			2002		
	Continuing	**Dis-continued**	**Total**	Continuing	Dis-continued	Total
Staff costs (including directors)	**£m**	**£m**	**£m**	£m	£m	£m
Wages and salaries	**105.1**	**0.4**	**105.5**	83.9	1.0	84.9
Social security costs	**12.9**	**-**	**12.9**	8.4	0.1	8.5
Other pension costs	**0.6**	**-**	**0.6**	0.6	-	0.6
Total staff costs	**118.6**	**0.4**	**119.0**	92.9	1.1	94.0

Directors' emoluments

Details of directors' emoluments are set out in the remuneration report on pages 21 to 24.

5 Pension costs

The Group has continued to account for pensions in accordance with SSAP 24. The disclosures given below are those required by that standard. FRS 17 Retirement Benefits was issued in November 2000 but will not be fully mandatory for the Group and the Company until the year ended 31st December 2005. Prior to this, phased transitional disclosures are required. The required disclosures are shown below.

The Group operates a pension scheme which covers the majority of United Kingdom employees. Membership on a final salary 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. 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 Bongard arrangements. Various defined contribution schemes exist across the Group and the total contributions in the year were £0.6m (2002: £0.6m).

Notes to the accounts

5 Pension costs (continued)

The latest full valuation of the main United Kingdom scheme was carried out by Watson Wyatt LLP, independent consulting actuaries, as at 31st December 2002 using the projected unit credit method. The principal assumptions on which the valuation was based for the purposes of establishing the Group's pension cost were that the investment return would be 2.5% greater than general salary increases, and between 3.25% and 4% greater than increases in future pension payments. The results of the valuation showed that the scheme had an aggregate market value of £575.8m and was 104% funded. The surplus has been spread forward on the fixed monetary amount basis. This valuation has been used for preparing the 2003 accounts. The pension prepayment held in the Group's balance sheet at 31st December 2003 was £23.3m (2002: £20.9m). The normal pension cost of £3.2m for 2003 was charged against provisions established in 2001 to address pension costs arising from the sale of the pipes businesses to Etex.

Group defined benefit scheme contributions of £5.5m (2002: £7.4m) based on pensionable salaries were made during the year ended 31st December 2003. Contributions of £0.3m (2002: £0.2m) were owed to the schemes at the 31st December 2003. It has been agreed with the trustees of the main UK scheme that contributions for the next year will be 12.8% (2002 restated: 12.8%) for all members accruing benefits on a final salary basis with the exception of members of the former 1970 scheme and 32.8% (2002 restated: 32.8%) for members of the former 1970 scheme. These rates are subject to review at the next triennial actuarial valuation. As the Group scheme is closed to new entrants, under the projected unit credit method, the current service cost, expressed as a percentage of pensionable salaries, will increase as the members of the scheme approach retirement.

FRS 17 Retirement Benefits

The valuation used for FRS 17 disclosures has been based on an updated actuarial valuation at 31st December 2003 by a qualified actuary. This takes account of the requirements of FRS 17 in order to assess the liabilities of the schemes at 31st December 2003. 2002 disclosures have been restated to include Bongard schemes. Scheme assets are stated at their market value at 31st December 2003. The financial assumptions used to calculate scheme liabilities under FRS 17 were:

	UK schemes 2003	**Bongard schemes 2003**	UK schemes 2002	Bongard schemes 2002	UK schemes 2001
Rate of increase in salaries	**4.0%**	**3.0%**	3.5%	3.0%	3.75%
Rate of increase of pensions in payment	**2.5-3.2%**	**–**	2.0-3.15%	–	2.5-3.25%
Discount rate	**5.55%**	**5.25-5.5%**	5.65%	5.0-5.5%	5.85%
Inflation assumption	**2.5%**	**2.0-2.7%**	2.0%	2.0-2.7%	2.25%

The assets of the aggregated schemes and the expected rate of return are:

	Long term asset returns expected 2003 %	**2003 £m**	Long term asset returns expected 2002 %	2002 Restated £m	Long term asset returns expected 2001 %	2001 £m
Equities	**7.8**	**265.7**	8.3	221.1	7.5	333.9
Bonds	**5.3**	**297.8**	5.3	282.5	5.6	272.9
Property	**6.5**	**55.3**	6.7	61.3	6.6	60.9
Other	**3.8**	**15.2**	3.8	20.7	4.3	17.7
Total market value of assets	**6.4**	**634.0**	6.5	585.6	6.6	685.4
Actuarial value of liabilities		**(661.9)**		(650.7)		(685.1)
(Deficit) / surplus in the scheme		**(27.9)**		(65.1)		0.3
Related deferred tax asset		**8.3**		19.5		–
Net pension (deficit) / asset		**(19.6)**		(45.6)		0.3

Included above for both 2003 and 2002 are assets with a market value of £0.2m and a deficit of £1.1m in respect of the Bongard schemes.

	2003 £m	2002 Restated £m	2001 Restated £m
Net assets excluding pension asset	**265.9**	257.3	249.8
Net pension (deficit) / asset	**(19.6)**	(45.6)	0.3
Net assets including pension (deficit) / asset	**246.3**	211.7	250.1
Profit and loss account excluding pension asset	**135.8**	126.7	120.0
Pension reserve	**(19.6)**	(45.6)	0.3
Profit and loss account including pension reserve	**116.2**	81.1	120.3

Notes to the accounts

5 Pension costs (continued)

Analysis of amounts which would have been chargeable to the profit and loss account in respect of defined benefit schemes had FRS 17 been adopted in full:

	2003 £m	2002 £m
Current service cost	**6.1**	7.0
Past service cost	**–**	–
Total operating charge	**6.1**	7.0

Analysis of amounts which would have been credited to other finance income had FRS 17 been adopted in full:

	2003 £m	2002 £m
Expected return on pension scheme assets	**37.4**	42.0
Interest on pension scheme liabilities	**(35.9)**	(37.3)
Net return	**1.5**	4.7

Analysis of amounts which would have been recognised in the statement of total recognised gains and losses had FRS 17 been adopted in full:

	2003 £m	2002 £m
Actual gain / (loss) on pension scheme assets	**31.2**	(85.1)
Experience gains arising on the scheme liabilities	**33.9**	9.8
Changes in the assumptions underlying the present value of the scheme liabilities	**(29.6)**	6.1
Actuarial gain / (loss)	**35.5**	(69.2)

Movement in (deficit) / surplus of the aggregated schemes during the year	2003 £m	2002 Restated £m
(Deficit) / surplus of the schemes at the beginning of the year	**(65.1)**	0.3
Movement:		
Schemes acquired	**–**	(1.5)
Current service cost	**(6.1)**	(7.0)
Contributions	**6.3**	7.6
Other finance income	**1.5**	4.7
Actuarial gain / (loss)	**35.5**	(69.2)
Deficit of the schemes at the end of the year	**(27.9)**	(65.1)

History of experience gains and losses	2003 £m	2002 Restated £m
Difference between the actual and expected return on scheme assets:		
Amount of gain / (loss)	**31.2**	(85.1)
Percentage of scheme assets	**4.9%**	(14.5%)
Experience gains and losses on scheme liabilities:		
Amount of gain	**33.9**	9.8
Percentage of scheme liabilities	**5.1%**	1.5%
Total amount which would have been recognised in statement of total recognised gains and losses:		
Amount of gain / (loss)	**35.5**	(69.2)
Percentage of scheme liabilities	**5.4%**	(10.6%)

Notes to the accounts

6 Interest

	2003	2002
Interest payable:	£m	£m
Bank loans and overdrafts	0.5	0.3
All other borrowings	0.3	0.7
Total interest payable	0.8	1.0
Less interest receivable and similar income	(1.7)	(4.2)
Net interest receivable	(0.9)	(3.2)

7 Tax on profit on ordinary activities

	2003	2002
United Kingdom corporation tax based on a rate of 30% (2002: 30%):	£m	£m
Current tax on income for year	3.2	3.7
Adjustments in respect of prior years	(0.3)	(2.1)
Corporation tax	2.9	1.6
Deferred tax charge in the year	1.0	2.4
Adjustments in respect of prior years	–	0.8
Deferred tax (note 19)	1.0	3.2
Total United Kingdom tax	3.9	4.8
Overseas tax		
Current tax on income for year	1.2	1.9
Adjustments in respect of prior years	–	0.7
	1.2	2.6
Deferred tax (note 19)	0.5	–
Total overseas tax	1.7	2.6
Tax on profit on ordinary activities	5.6	7.4

The current tax assessed for the year is lower than the standard rate of corporation tax in the UK as explained below:

	2003	2002 Restated
	£m	£m
Profit on ordinary activities before tax	27.9	27.6
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	8.4	8.3
Effects of:		
- non-taxable income	(2.1)	–
- non-deductible expenses (primarily goodwill amortisation)	2.4	3.1
- capital allowances for the year in excess of depreciation	(0.6)	(0.8)
- other timing differences	(4.1)	(4.5)
- adjustment to tax charge in respect of prior years	(0.3)	(1.4)
- higher / (lower) rates of tax on overseas earnings	0.4	(0.5)
Current tax charge for the year	4.1	4.2

Notes to the accounts

8 Profit for the year

Group profit after tax and minority interests for the year was £22.2m (2002 restated: £20.1m). 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 profit after tax was £33.3m (2002: £23.6m).

9 Dividends

	2003	2002
Ordinary dividends	**£m**	£m
Interim paid of 2.2p per share (2002: 1.9p)	**2.8**	2.5
Proposed final of 5.0p per share (2002: 4.1p)	**6.5**	5.3
Total dividends of 7.2p per share (2002: 6.0p)	**9.3**	7.8

10 Earnings per share

	2003	2002 Restated
Earnings	**£m**	£m
Profit on ordinary activities after tax	**22.3**	20.2
Minority interests	**(0.1)**	(0.1)
Goodwill amortisation	**8.0**	6.5
Earnings before goodwill amortisation	**30.2**	26.6
Profit on ordinary activities after tax	**22.3**	20.2
Minority interests	**(0.1)**	(0.1)
Earnings – for basic and diluted EPS	**22.2**	20.1
Weighted average number of shares in issue	**million**	million
For basic EPS calculation	**129.4**	128.5
Dilutive effect of share options	**0.5**	0.5
For diluted EPS calculation	**129.9**	129.0
Earnings per share	**p**	p
Basic	**17.2**	15.6
Diluted	**17.1**	15.6
Basic - before goodwill amortisation	**23.3**	20.7

The additional earnings per share figure has been calculated to provide a measure of performance before the impact of goodwill amortisation.

Notes to the accounts

11 Intangible assets

Group	Goodwill £m	Development costs £m	Total £m
Cost			
At 1st January as previously reported	155.6	–	**155.6**
Prior year adjustment (note 21)	–	1.2	**1.2**
At 1st January restated	155.6	1.2	**156.8**
Exchange adjustment	(2.8)	–	**(2.8)**
Additions	–	2.7	**2.7**
Arising from acquisitions in the year (note 23)	8.6	–	**8.6**
Arising from adjustment to prior year acquisitions (note 23)	0.6	–	**0.6**
At 31st December	162.0	3.9	**165.9**
Amortisation			
At 1st January as previously reported	17.4	–	**17.4**
Prior year adjustment (note 21)	–	0.1	**0.1**
At 1st January restated	17.4	0.1	**17.5**
Exchange adjustment	(0.6)	–	**(0.6)**
Charge for the year	8.0	0.3	**8.3**
At 31st December	24.8	0.4	**25.2**
Net book value at 31st December	**137.2**	**3.5**	**140.7**
Net book value at 1st January restated	138.2	1.1	139.3

Goodwill arising on acquisitions is being amortised over 20 years, which the directors believe to be its useful economic life. The Company holds no intangible fixed assets (2002: nil).

12 Tangible fixed assets

Group	Land and buildings £m	Plant, machinery and equipment £m	Assets in course of construction £m	Total tangible fixed assets £m
Cost and valuation				
At 1st January	45.1	81.9	1.1	**128.1**
Exchange adjustment	(0.3)	(0.6)	–	**(0.9)**
Businesses acquired	0.1	2.8	0.1	**3.0**
Capital expenditure	7.4	10.0	0.6	**18.0**
Disposals	(5.0)	(13.0)	–	**(18.0)**
Reclassification	0.1	0.9	(1.0)	–
At 31st December	47.4	82.0	0.8	**130.2**
Depreciation				
At 1st January	13.4	52.5	–	**65.9**
Exchange adjustment	(0.4)	(0.4)	–	**(0.8)**
Businesses acquired	(1.7)	1.3	–	**(0.4)**
Charge for the year	1.4	6.7	–	**8.1**
Disposals	(2.9)	(12.9)	–	**(15.8)**
At 31st December	9.8	47.2	–	**57.0**
Net book value at 31st December	**37.6**	**34.8**	**0.8**	**73.2**
Net book value at 1st January	31.7	29.4	1.1	62.2

The Company holds no tangible fixed assets (2002: nil).

Notes to the accounts

12 Tangible fixed assets (continued)

All tangible fixed assets are held at cost except for £12.9m of land and buildings valued professionally in 1995. The historical cost to the relevant businesses of tangible fixed assets amounts to £129.6m (2002: £127.2m) and the accumulated depreciation thereon is £58.8m (2002: £68.0m), giving a net historical book value of £70.8m (2002: £59.2m).

The net book value of tangible fixed assets includes £0.8m (2002: £0.1m) in respect of assets held under finance leases. Depreciation for the year on these assets was £0.2m (2002: nil). The net book value of land and buildings comprises:

	2003 £m	2002 £m
Freehold	**30.9**	25.8
Long leasehold	**1.7**	0.9
Short leasehold	**5.0**	5.0
Total	**37.6**	31.7

Included in land and buildings are properties, with a cost of £7.6m and related depreciation of £1.3m, leased to former Metals Processing businesses. The businesses have options to purchase these properties, exercisable before 2009. No material loss would arise on the exercise of these options.

13 Investments

Group	2003 £m	2002 £m
Interest in associated undertakings		
Goodwill at 1st January	**2.6**	–
Exchange adjustment	**(0.1)**	–
Goodwill arising on acquisition	**2.6**	2.6
Charge for the year	**(0.2)**	–
Goodwill at 31st December	**4.9**	2.6
Share of net assets excluding goodwill	**0.9**	0.2
Investment in associated undertakings	**5.8**	2.8

On 17th March 2003 the Group paid £2.8m to increase its shareholding in Grange SA (France), a manufacturer and retailer of furniture, from 19.9% to 40.7%. Grange has been accounted for as an associated undertaking due to the nature of the investment. The Group's share of profits before goodwill is £0.2m (2002: nil).

Company	Cost of shares £m	Provisions £m	Net book value £m	Amounts due from subsidiaries £m	Amounts due to subsidiaries £m	Total £m
In subsidiaries						
At 1st January	588.7	(122.0)	**466.7**	279.1	(212.2)	**533.6**
Additions	2.8	–	**2.8**	–	–	**2.8**
Intra group transfers	31.8	–	**31.8**	334.8	(366.6)	**-**
Other movements	–	(2.6)	**(2.6)**	8.3	48.7	**54.4**
At 31st December	**623.3**	**(124.6)**	**498.7**	**622.2**	**(530.1)**	**590.8**

14 Stocks

Group	2003 £m	2002 £m
Raw materials and consumables	**13.2**	11.1
Work in progress	**9.9**	8.8
Finished goods and goods for resale	**38.2**	32.1
Total stocks	**61.3**	52.0

The Company holds no stocks (2002: nil).

Notes to the accounts

15 Debtors

	Group		Company	
	2003	2002	**2003**	2002
Operating debtors	**£m**	£m	**£m**	£m
- falling due within one year				
Trade debtors	**59.8**	60.7	**-**	–
Amounts owed by Group undertakings	–	–	**622.2**	279.1
Amounts owed by associated undertakings	**0.2**	0.1	**-**	–
Other debtors	**2.5**	4.0	**0.1**	0.6
Prepayments and accrued income	**11.5**	6.2	**-**	–
Total falling due within one year	**74.0**	71.0	**622.3**	279.7
Operating debtors				
- falling due after one year				
Other debtors	**2.7**	0.3	**-**	–
Pension prepayment	**23.3**	20.9	**5.0**	4.9
Total operating debtors	**100.0**	92.2	**627.3**	284.6
Corporation tax recoverable falling due within one year	**2.7**	0.9	**0.4**	3.7
Total debtors	**102.7**	93.1	**627.7**	288.3

16 Creditors

	Group		Company	
	2003	2002	**2003**	2002
Amounts falling due within one year	**£m**	£m	**£m**	£m
Operating creditors				
Trade creditors	**56.2**	51.7	**-**	–
Amounts owed to Group undertakings	**-**	–	**530.1**	212.2
Amounts owed to associated undertakings	**0.1**	0.5	**-**	–
Social security	**3.7**	3.6	**-**	–
Accruals and deferred income	**17.0**	17.6	**0.1**	0.1
Other creditors	**11.9**	16.2	**0.6**	0.8
Total operating creditors	**88.9**	89.6	**530.8**	213.1
Tax and dividends payable				
Corporation tax	**3.0**	2.2	**-**	–
Dividends payable	**6.5**	5.3	**6.5**	5.3
Total tax and dividends payable	**9.5**	7.5	**6.5**	5.3
Amounts falling due after more than one year				
Other creditors (note 20)	**2.2**	2.4	**-**	–
Total amounts falling due after more than one year	**2.2**	2.4	**-**	–

Included in accruals and deferred income is £0.7m of grants received in respect of the new premises in Scotland. A further £0.5m is receivable on completion of the move in 2004.

Notes to the accounts

17 Borrowings

	Group		Company	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Floating Rate Loan Notes	**1.2**	2.6	**1.2**	2.6
Finance leases	**0.2**	0.1	**–**	–
Other borrowings	**0.8**	19.8	**–**	19.3
Total falling due within one year	**2.2**	22.5	**1.2**	21.9
Finance leases	**0.6**	0.1	**–**	–
Other borrowings	**19.6**	0.7	**18.6**	–
Total falling due after one year	**20.2**	0.8	**18.6**	–
Total borrowings	**22.4**	23.3	**19.8**	21.9
Cash at bank and in hand	**(52.0)**	(78.8)	**(33.3)**	(61.3)
Total net cash	**(29.6)**	(55.5)	**(13.5)**	(39.4)
Secured – finance leases	**0.8**	0.2	**–**	–
Unsecured	**21.6**	23.1	**19.8**	21.9
Total borrowings	**22.4**	23.3	**19.8**	21.9

Included in Floating Rate Loan Notes are outstanding convertible loan notes in respect of 2001 acquisitions of £0.4m (2002: £0.9m).

18 Financial instruments

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

Major corporate-related transactions are carried out by the group treasury team which operates as a cost centre.

The main risks arising from the Group's financial instruments are interest rate risk and foreign currency risk. Policies for managing these risks are governed by board approved policies and procedures, which have remained unchanged since the beginning of 2003.

- **Foreign currency transactional risk**

  The Group requires its operating units to use forward currency contracts for any material committed sales or purchases denominated in currencies other than the unit's functional currency. Operating units undertake transactional hedging within the parameters set by the board and the level of transactional hedging and exposure is reviewed by group treasury on a monthly basis.

- **Foreign currency structural risk**

  With its strategy of growth and expansion on an international scale, the Group has significant investment in overseas operations. The Group seeks to mitigate the effect of such structural currency exposures by borrowing in the same currency as the functional currency of its operating units. In managing the structural currency exposures, the Group's objectives are to minimise borrowing costs and to retain some potential for currency-related appreciation whilst hedging against currency depreciation.

  At the end of 2003, the Euro liabilities represented 35.1% of Euro net assets.

- **Interest rate risk**

  The Group maintains its policy to minimise interest rate risk on its borrowings and deposits by using interest rate swaps and forward rate agreements where appropriate. The Group's policy is, normally, to have between 25% and 75% of debt at fixed rates at any time, depending on debt levels and market conditions. Interest rate risk is currently minimised, without the need to use derivative financial instruments, as explained in the paragraph below.

Notes to the accounts

18 Financial instruments (continued)

The Group started its financial year with surplus funds, providing it with the opportunity to develop its core businesses. As the Group's objective was to maintain flexibility in utilising these funds, the maturity profile has been kept short throughout 2003, and the acquisitions made during the year were financed by the surplus funds. At the year end, all of the Group's investments were floating rate, with a weighted average maturity of one month.

The ongoing financial liabilities are all interest bearing and floating rate.

Short term debtors and creditors have been excluded from all of the following disclosures, other than the currency exposure.

a) Currency and interest rate exposure of financial assets and liabilities

The following table analyses the currency and interest rate composition of the Group's financial liabilities, comprising total borrowings of £22.4m (2002: £23.3m) included in note 17, the provision for vacant leasehold properties of £0.7m (2002: £1.0m) included in note 19 and deferred consideration payable in respect of the Domain acquisition.

2003	**Floating rate £m**	**Non interest bearing £m**	**Total £m**
Currency			
Sterling	1.2	0.7	**1.9**
Euros	17.3	–	**17.3**
US dollar	3.0	2.2	**5.2**
Other currencies	0.9	–	**0.9**
At 31st December	**22.4**	**2.9**	**25.3**

2002	Floating rate £m	Non interest bearing £m	Total £m
Currency			
Sterling	2.9	1.0	3.9
Euros	14.1	–	14.1
US dollar	6.2	3.0	9.2
Other currencies	0.1	–	0.1
At 31st December	23.3	4.0	27.3

Floating rate financial liabilities bear interest based on the relevant national LIBOR equivalents, which are fixed in advance for periods of between one month and six months.

The provision for vacant leasehold properties is considered to be a non-interest bearing liability and has an average period to maturity of 3 years (2002: 4 years).

The following table analyses the currency rate exposure of the Group's financial assets, comprising cash at bank and in hand of £52.0m (2002: £78.8m).

Currency	**2003 £m**	2002 £m
Sterling	**44.1**	68.5
Euros	**3.6**	5.1
US dollar	**3.2**	4.5
Other currencies	**1.1**	0.7
At 31st December	**52.0**	78.8

The above financial assets bear floating rate interest at the relevant short term market rate. In accordance with the parameters set by the board, the Group's policy is to select those counterparts with high-quality credit ratings.

Notes to the accounts

18 Financial instruments (continued)

b) Maturity analysis of financial liabilities

The following table analyses the maturity profile of the Group's financial liabilities at the year end. Other financial liabilities represent the provision for vacant leasehold properties and deferred consideration payable in respect of the Domain acquisition.

	Group				Company
2003	**Borrowings £m**	**Finance leases £m**	**Other financial liabilities £m**	**Total £m**	**Total £m**
Within 1 year or on demand	2.0	0.2	0.2	**2.4**	**1.2**
Between 1 and 2 years	18.9	0.2	2.4	**21.5**	**18.6**
Between 2 and 5 years	0.6	0.4	0.1	**1.1**	–
Over 5 years	0.1	–	0.2	**0.3**	–
At 31st December	**21.6**	**0.8**	**2.9**	**25.3**	**19.8**

	Group				Company
2002	Borrowings £m	Finance leases £m	Other financial liabilities £m	Total £m	Total £m
Within 1 year or on demand	22.4	0.1	0.5	23.0	21.9
Between 1 and 2 years	0.1	0.1	0.4	0.6	–
Between 2 and 5 years	0.5	–	3.0	3.5	–
Over 5 years	0.1	–	0.1	0.2	–
At 31st December	23.1	0.2	4.0	27.3	21.9

c) Borrowing facilities

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

	2003 £m	2002 £m
Expiring within 1 year	–	5.7
Expiring between 1 and 2 years	**6.4**	–
Total undrawn committed facilities	**6.4**	5.7

The Group also has uncommitted facilities totalling £42.2m (2002: £33.6m).

d) Fair values of financial assets and liabilities	**2003**		2002	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Primary financial instruments held or issued to finance Group operations				
Short term borrowings	**(2.2)**	**(2.2)**	(22.5)	(22.5)
Long term borrowings	**(20.2)**	**(20.2)**	(0.8)	(0.8)
Other financial liabilities	**(2.9)**	**(2.9)**	(4.0)	(4.0)
Cash at bank and in hand	**52.0**	**52.0**	78.8	78.8
Derivative financial instruments held or issued to hedge the currency exposure on purchases and sales:				
Forward foreign currency contracts	–	**(0.2)**	–	–

Notes to the accounts

18 Financial instruments (continued)

As noted on page 45 the Group's borrowings are primarily loan advances with maturities between one and six months and their book value is deemed to approximate to their fair values. As the majority of the borrowings mature within two years. there were no interest rate swaps in place at the year end. The fair value of the forward foreign exchange contracts has been calculated using the spot rate of exchange at the year end.

e) Currency exposures

The table below shows the currency exposure of the Group's net monetary assets and liabilities in currencies other than their local currency after taking account of forward foreign exchange contracts held to manage such exposures. Foreign exchange differences on retranslation of these assets and liabilities are taken to the profit and loss account.

	Net foreign currency financial assets / (liabilities)				
2003	**Sterling £m**	**Eurozone £m**	**US £m**	**Other currencies £m**	**Total £m**
Functional currency of Group operation					
Sterling	-	(0.3)	(0.1)	(0.7)	(1.1)

	Net foreign currency financial assets / (liabilities)				
2002	Sterling £m	Eurozone £m	US £m	Other currencies £m	Total £m
Functional currency of Group operation					
Sterling	–	–	–	0.2	0.2

f) Hedges on future transactions

As explained on page 44, the Group's policy is to hedge the following exposures:

- interest rate risk by using interest rate swaps and forward rate agreements where appropriate; and
- structural and transactional currency exposures and currency exposures on future expected sales and purchases by using forward foreign exchange contracts.

At 31st December 2003 there were no interest rate swaps outstanding (2002: nil) and unrecognised net losses in respect of forward foreign exchange contracts were £0.2m (2002: nil).

Notes to the accounts

19 Provisions for liabilities and charges

Group	Deferred tax £m	Pensions & employee benefits £m	Product warranties £m	Property & reorganisation £m	Other £m	Total £m
At 1st January	7.4	1.7	2.4	1.6	20.2	**33.3**
Exchange adjustment	0.1	–	(0.1)	(0.1)	(0.2)	**(0.3)**
Acquisitions (note 23)	(1.3)	0.9	0.7	0.9	2.1	**3.3**
Charge / (credit) in the year	1.5	0.1	0.6	1.3	(0.7)	**2.8**
Released in year (note 23)	–	–	–	–	(3.8)	**(3.8)**
Utilised in year	0.3	(0.3)	(0.4)	(1.0)	(3.5)	**(4.9)**
At 31st December	**8.0**	**2.4**	**3.2**	**2.7**	**14.1**	**30.4**

Company	Deferred tax £m	Other £m	Total £m
At 1st January	1.4	14.9	**16.3**
Intra group transfers	–	10.0	**10.0**
Charge / (credit) in the year	0.1	(0.5)	**(0.4)**
Released in year (note 23)	–	(3.8)	**(3.8)**
Utilised in the year	–	(3.3)	**(3.3)**
At 31st December	**1.5**	**17.3**	**18.8**

Deferred tax	2003		2002	
	Group £m	Company £m	Group £m	Company £m
Timing differences between tax allowances and depreciation	**3.1**	**-**	2.5	–
Other timing differences	**4.9**	**1.5**	4.9	1.4
Total deferred tax	**8.0**	**1.5**	7.4	1.4

Pensions and employee benefits

Pensions and employee benefits include £2.4m (2002: £1.7m) in respect of unfunded overseas pension schemes.

Product warranties

Provision is made for the estimated liability on all products still under warranty. Product warranties of between 1 and 2 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 remains 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 is shown in note 18(b).

Other

The Group's and Company's other provisions relate to the remaining costs in respect of the disposal of Pipe Systems, including probable warranty and indemnity claims, pensions, taxation exposures, 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.

Notes to the accounts

20 Share capital

	2003 £m	2002 £m
Authorised		
327.0m ordinary shares of 25p each (2002: 327.0m)	**81.8**	81.8
Issued and fully paid		
129.4m ordinary shares of 25p each (2002: 129.4m)	**32.4**	32.3

During the year 5,506 ordinary shares of 25p each (nominal value £1,377) (2002: 444,604 shares, nominal value £111,151) were issued in connection with the Company's share option schemes for an aggregate consideration of £10,957 (2002: £988,870).

Options

Options outstanding at 31st December 2003 under the following schemes were as follows:

	Senior Executive Share Option Schemes			Savings-Related Share Option Schemes		
	Number of shares	**Option price p per share**	**Exercisable in 7 years to**	**Number of shares**	**Option price p per share**	**Exercisable in the 6 months to**
	315,000	288	April 2007	330,144	199	May 2005
	175,000	321	May 2008	**Long-Term Incentive Plan**		
	582,222	225	September 2009	**Number of shares**	**Option price p per share**	**Exercisable in 7 years to**
	1,025,500	236	June 2011			
	762,500	261	March 2012	346,640	268	April 2012
	857,000	235	October 2013	162,724	235	October 2013
Total	**3,717,222**			**839,508**		

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 21 to 24.

As part of the acquisition of Domain Inc, in 2002, the officers have an option to receive 1,179,834 shares in Aga Foodservice Group plc in lieu of the deferred cash payment of £2.2m, included in creditors falling due after more than one year. The option price is 237p and these are exercisable on 1st April 2005, subject to the continued employment of the four Domain officers.

Convertibles

As part of the acquisition of Resurgan Limited in 2001, variable rate Convertible Unsecured Redeemable Loan Stock 2004 ('CURLS') were issued, of which £0.4m remain outstanding and fixed rate Convertible Redeemable Unsecured Loan Stock 2007 ('CRULS') were issued, as part of the consideration, of which £0.3m remain outstanding. At the holder's option the principal outstanding on CURLS and CRULS may be converted into Aga Foodservice Group plc shares at a price of 250p per share up to 31st July 2004 and 30th September 2004, respectively.

Notes to the accounts

21 Reserves

Group	Share premium £m	Revaluation reserve £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1st January as previously reported	59.9	3.0	35.0	140.4	**238.3**
Prior year adjustment	–	–	–	1.1	**1.1**
At 1st January as restated	59.9	3.0	35.0	141.5	**239.4**
Exchange adjustment	–	–	–	(3.2)	**(3.2)**
Profit retained	–	–	–	12.9	**12.9**
Transfer between reserves	–	(0.6)	–	0.6	**–**
Other movement	–	–	–	0.4	**0.4**
At 31st December	**59.9**	**2.4**	**35.0**	**152.2**	**249.5**

Company	Share premium £m	Revaluation reserve £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1st January	59.9	–	35.0	432.5	**527.4**
Profit retained	–	–	–	24.0	**24.0**
At 31st December	**59.9**	**–**	**35.0**	**456.5**	**551.4**

The prior year adjustment relates to the capitalisation of product development costs as permitted under SSAP 13, this has resulted in an increase in profit on ordinary activities of £2.4m in 2003 (2002: £0.6m).

The cumulative amount of goodwill taken direct to reserves since 1985 in respect of businesses who were members of the Group at 31st December 2003 is £6.3m (2002: £6.3m).

In accordance with SSAP 20, 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 losses on foreign currency net cash / borrowings of £0.5m (2002: gain £0.7m) have been taken to reserves. The Company's profit and loss account reserves of £456.5m (2002: £432.5m) include approximately £321m (2002: £292m) which is unavailable for distribution.

22 Minority interests

	2003 £m	2002 £m
At 1st January	**0.4**	0.4
Exchange adjustment	**(0.1)**	(0.1)
Profit and loss account	**0.1**	0.1
At 31st December	**0.4**	0.4

Notes to the accounts

23 Acquisitions and disposals

a) Acquisitions

The principal acquisition during the year was Northland Corporation as shown below:

	Current year acquisitions			Prior year acquisitions		
	Northland			Bongard	Other	
	Book Value	Fair value adjustments	Provisional fair value	Fair value adjustments	Fair value adjustments	Total
Aggregated net assets acquired	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Tangible fixed assets	0.7	0.3	**1.0**	**2.4**	–	**3.4**
Stocks	3.6	0.2	**3.8**	**(0.6)**	–	**3.2**
Debtors	3.5	1.7	**5.2**	**(0.1)**	**(0.2)**	**4.9**
Other creditors	(1.4)	(0.3)	**(1.7)**	**(1.2)**	**(0.8)**	**(3.7)**
Borrowings acquired	(0.4)	–	**(0.4)**	–	–	**(0.4)**
Provisions	(0.5)	(2.9)	**(3.4)**	**0.1**	–	**(3.3)**
Net assets acquired	5.5	(1.0)	**4.5**	**0.6**	**(1.0)**	**4.1**
Cash paid			**13.1**	**1.0**	–	**14.1**
Deferred consideration			–	**(0.8)**	–	**(0.8)**
Total consideration			**13.1**	**0.2**	–	**13.3**
Goodwill arising on acquisitions in the year			**8.6**	–	–	**8.6**
Goodwill arising in respect of prior year acquisitions			–	**(0.4)**	**1.0**	**0.6**
Total goodwill arising (note 11)			**8.6**	**(0.4)**	**1.0**	**9.2**

The fair value adjustments include accounting policy adjustments of £0.8m relating to bringing Northland in line with the Group's policy on deferred tax. All further adjustments are of a revaluation nature. Revaluation adjustments to fixed assets represent changes to bring assets to gross replacement cost reduced by depreciation to take account of the age and condition of the assets. Adjustments relating to stocks and debtors reflect knowledge gained as to the recoverability of these items following acquisition. Adjustments relating to creditors and provisions relate to certain re-statements of accruals and the provision for certain liabilities not included in the acquired balance sheet.

The fair value adjustments contain some provisional amounts that will be finalised in the 2004 financial statements when the detailed acquisition investigation has been completed.

Northland was acquired in September. Its previous accounting period was the 12 months to October 2002, the profit after taxation for this period was USD2.0m (£1.2m); and from the end of the previous accounting period to acquisition date it was USD1.3m (£0.8m).

The provisional fair values for acquisitions incorporated into the 2002 financial accounts have now been finalised and revaluation adjustments have been reflected as per the above table. Revaluation adjustments to fixed assets represent changes to bring assets to gross replacement cost reduced by depreciation to take account of the age and condition of the assets. Adjustments relating to stocks and debtors reflect knowledge gained as to the recoverability of these items following acquisition. In relation to these acquisitions, Domain and Belshaw's final fair values have not materially changed from those provisionally reported.

Notes to the accounts

23 Acquisitions and disposals (continued)

b) Net cash flow on acquisitions and disposals

	2003 £m	2002 £m
Current year acquisitions		
Cash paid for subsidiaries	**(13.3)**	(50.2)
Cash paid for associates (note 13)	**(2.8)**	(2.8)
Cash acquired	–	9.7
Net acquisitions outflow	**(16.1)**	(43.3)
Current year disposals		
Initial consideration	–	5.3
Less costs incurred net of further proceeds received	–	(5.3)
Net cash flow	**(16.1)**	(43.3)

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

Post-acquisition the effect on the Group cash flow was an outflow of £0.4m being cash inflow from operations of £0.1m and cash outflow for capital expenditure and financial investment of £0.5m.

The effect on the Group cash flow from operations now classified as discontinued was an outflow of £1.1m in total (2002: £nil).

c) Disposal of businesses

	2003 £m	2002 £m
(Release of provision) / provision for disposal of businesses (note 19)	**(3.8)**	4.8
Loss / (profit) on disposal of businesses	**2.0**	(4.8)
Disposal of businesses	**(1.8)**	–

24 Financing

		2003		2002	
	Notes	£m	£m	£m	£m
Issue of ordinary share capital			**0.1**		3.8
New bank borrowing		–		13.1	
Decrease in borrowings not repayable on demand	25	**(2.3)**		(54.3)	
Finance lease inception / (repayments)	25	**0.6**		(0.3)	
Decrease in debt			**(1.7)**		(41.5)
Movement in financing			**(1.6)**		(37.7)

25 Analysis of movement in net cash

	At 1st January £m	Cash flow £m	Acquisitions (excluding cash and overdrafts) £m	Exchange translation adjustments £m	At 31st December £m
Cash at bank and in hand (note 17)	78.8	(26.7)	–	(0.1)	**52.0**
Other borrowings	(23.1)	2.3	(0.4)	(0.4)	**(21.6)**
Finance lease obligations	(0.2)	(0.6)	–	–	**(0.8)**
Total net cash	**55.5**	**(25.0)**	**(0.4)**	**(0.5)**	**29.6**

Notes to the accounts

26 Commitments

	2003 £m	2002 £m
Capital commitments contracted for by the Group but not provided for in the accounts	**2.8**	1.6

The Company had no capital commitments (2002: nil).

27 Operating lease commitments

	Land & buildings		Other operating leases	
	2003	2002	**2003**	2002
For leases expiring:	**£m**	£m	**£m**	£m
- within 1 year	**0.7**	0.5	**0.4**	0.9
- between 1 and 2 years	**0.7**	0.8	**0.6**	0.8
- between 2 and 5 years	**1.6**	2.0	**1.4**	2.1
- after more than 5 years	**5.1**	5.2	**-**	-
Total operating lease commitments	**8.1**	8.5	**2.4**	3.8

The Company had no operating lease commitments (2002: nil).

28 Contingent liabilities

The Group had no contingent liabilities arising in the normal course of business at 31st December 2003 (2002: 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. The Company has given a number of financial and performance guarantees on behalf of subsidiaries, the relevant liabilities are included in the consolidated balance sheet.

29 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 2003 was £0.3m (2002: £0.2m). The amount outstanding at the year end was £0.1m (2002: £0.2m).

During the year, Mrs B Nielsen, a non-executive director until January 2003, now the managing director of Fired Earth Limited, purchased goods from Fired Earth Limited, a subsidiary of Aga Foodservice Group plc, to a value of £15,875 which was paid after the year end.

Balances outstanding with Grange SA, an associated undertaking, are shown in notes 15 and 16. The following transactions have been made with Grange SA during the year:

	2003 £m	2002 £m
Sales to associated undertaking	**0.1**	-
Purchases from associated undertaking	**0.2**	-

Notes to the accounts

30 Trading subsidiaries

The following is a list of the Company's principal trading subsidiaries at 31st December 2003. A brief description of the activities is given in the chief executive's review on pages 4 to 13. 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 Company.

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.

Aga Consumer Products

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

Aga-Rayburn

Rangemaster

Aga Foodservice Equipment

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

AFE Online

AFE Serviceline

Falcon Foodservice Equipment

Mono Equipment

Williams Refrigeration

Principal overseas businesses:

Adamatic, A Corporation (USA)

Belshaw Bros., Inc (USA)

Bongard SA (France)

Domain, Inc (USA)

Ming Fai Stainless Steel Catering Equipment Manufacturing Co Limited (56.8%) (Hong Kong)

Northland Corporation (USA)

Victory Refrigeration LLC (USA)

Williams Refrigeration Limited (Australia) ◆

Other principal businesses:

Elgin & Hall Limited

Fired Earth Limited ◆

Millers Vanguard Limited

Williams Refrigeration Central Limited (80%)

Central Services

AFG Properties Limited ◆

AFG Corporate Services Limited ◆

Directors' responsibilities

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 and the Group as at the end of the financial year and of the profit and loss for that year.

The directors consider that in preparing the financial statements on pages 27 to 54 on a going-concern basis, 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 ensuring that the Company and the Group maintain accounting records which disclose with reasonable accuracy the financial position of the Company and the Group 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 Group and to prevent and detect fraud and other irregularities.

The maintenance and integrity of the Aga Foodservice Group plc website is the responsibility of the directors; 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.

Independent auditors' report

To the members of Aga Foodservice Group plc

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ('the auditable part').

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This opinion has been prepared for and only for the company's members in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions is not disclosed. We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the directors' report, the unaudited part of the directors' remuneration report, the chairman's statement, the operating and financial review, the corporate governance statement and the statement of corporate social responsibility.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the 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 to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the directors' remuneration report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31st December 2003 and the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Birmingham

19th March 2004

Five year financial history

		2003	2002 Restated	2001 Restated	2000	1999
Trading results		**£m**	£m	£m	£m	£m
Turnover		**392.4**	330.3	370.3	969.1	878.3
Operating profit before disposal of businesses and goodwill amortisation		**33.2**	30.9	26.2	101.5	81.0
Goodwill amortisation		**(8.0)**	(6.5)	(6.6)	(15.1)	(9.7)
Net interest receivable / (payable)		**0.9**	3.2	5.6	(19.6)	(9.2)
Profit before disposal of businesses		**26.1**	27.6	25.2	66.8	62.1
Disposal of businesses		**1.8**	–	–	(36.0)	32.5
Profit before tax		**27.9**	27.6	25.2	30.8	94.6
Tax		**(5.6)**	(7.4)	(7.9)	(22.1)	(18.8)
Profit after tax		**22.3**	20.2	17.3	8.7	75.8
Balance sheet summary						
Net operating assets						
Development costs		**3.5**	1.1	0.5	–	–
Fixed assets		**73.2**	62.2	49.0	288.2	273.3
Stocks		**61.3**	52.0	36.8	194.4	166.6
Operating debtors less creditors and provisions		**(13.5)**	(25.7)	(24.4)	(53.2)	(24.2)
Total net operating assets before goodwill		**124.5**	89.6	61.9	429.4	415.7
Goodwill		**137.2**	138.2	97.7	275.8	272.6
Total net operating assets		**261.7**	227.8	159.6	705.2	688.3
Investments		**5.8**	2.8	–	–	–
Tax and dividends		**(14.8)**	(14.0)	(16.4)	(24.2)	(22.4)
Total net cash / (borrowings)		**29.6**	55.5	116.1	(304.3)	(273.9)
Total net assets employed		**282.3**	272.1	259.3	376.7	392.0
Financed by						
Ordinary shares		**32.4**	32.3	31.9	60.6	60.6
Reserves		**249.5**	239.4	227.0	314.8	330.0
Total shareholders' funds		**281.9**	271.7	258.9	375.4	390.6
Minority interests		**0.4**	0.4	0.4	1.3	1.4
Total funds		**282.3**	272.1	259.3	376.7	392.0
Statistics						
Operating profit before disposal of businesses and goodwill amortisation to turnover	%	**8.5**	9.4	7.1	10.5	9.2
Interest cover before disposal of businesses	x	**–**	–	–	4.4	7.8
Dividend per ordinary share	p	**7.2**	6.0	5.0	13.2	13.2
Earnings per share						
Basic	p	**17.2**	15.6	9.8	3.5	31.0
Diluted	p	**17.1**	15.6	9.8	4.1	30.5
Basic - before disposal of businesses and goodwill amortisation	p	**23.3**	20.7	13.3	22.6	22.0

Notice of Annual General Meeting

Notice is hereby given that the sixty third Annual General Meeting (AGM) of Aga Foodservice Group plc will be held at the Ramada Jarvis Hotel, The Square, Solihull, West Midlands B91 3RF on 7th May 2004 at 12 noon to transact the following business:

Ordinary business:

1. To receive and adopt the Annual Report and Accounts for the year ended 31st December 2003.
2 To declare a final dividend.
3. To re-elect S M Smith as a director.
4. To re-elect W B McGrath as a director.
5. To re-elect V Cocker as a director.
6. To re-elect J A George as a director.
7. To re-elect P W G Tom as a director.
8. To re-elect P B Dermody as a director.
9. To receive and adopt the directors' remuneration report for the year ended 31st December 2003.
10. To re-appoint the auditors, PricewaterhouseCoopers LLP, to hold office from the conclusion of this meeting until the conclusion of the next general meeting of the Company at which accounts are laid.
11. To authorise the directors to determine the auditors' remuneration.
12. To consider the following resolution, which will be proposed as an ordinary resolution:

    That the authority conferred on the directors by article 4(B) of the Company's Articles of Association be renewed for the period expiring on the earlier of the date 15 months after the passing of this resolution and the conclusion of the next AGM of the Company following the passing of this resolution and for that period the 'section 80 amount' is £10,783,688.
13. Subject to the passing of the foregoing resolution no. 12, to consider the following resolution, which will be proposed as a special resolution:

    That the power conferred on the directors by article 4(C) of the Company's Articles of Association (as amended by resolution no 15 below) be renewed for the period expiring on the earlier of the date 15 months after the passing of this resolution and the conclusion of the next AGM of the Company following the passing of this resolution and for that period the 'section 89 amount' is £1,617,553.

Special business:

14. To consider the following resolution, which will be proposed as a special resolution:

    That the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of section 163(3) of the Companies Act 1985) of ordinary shares of 25p in the capital of the Company ('ordinary shares') provided that:

(a) the maximum aggregate number of ordinary shares authorised to be purchased is 12,940,426 (representing 10 per cent of the issued ordinary share capital);

(b) the minimum price which may be paid for an ordinary share is 25p (exclusive of expenses and taxes (if any) payable by the Company);

(c) the maximum price which may be paid for an ordinary share is an amount equal to 105 per cent of the average of the middle market quotations for an ordinary share as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that ordinary share is purchased (exclusive of expenses and taxes (if any) payable by the Company);

(d) this authority expires on the earlier of the date 12 months after the passing of this resolution and the conclusion of the next AGM of the Company following the passing of this resolution; and

(e) the Company may make a contract to purchase ordinary shares under this authority before the expiry of the authority, and may make a purchase of ordinary shares in pursuance of any such contract.

15. To consider the following resolution, which will be proposed as a special resolution:

    That the Company's Articles of Association be amended by:

(a) adding a new sentence as a new paragraph (not numbered) under article 4(C) as set out below:

'This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 94(3A) of the Act as if in the first paragraph of this article 4(C) the words 'pursuant to the authority conferred by paragraph (B).' were omitted; and

(b) adding a new paragraph (iv) in article 4(E) as set out below and renumbering paragraph (iv) in article

Notice of Annual General Meeting

4(E) as paragraph (v):

'(iv) 'allotment of equity securities' shall be construed in accordance with section 94 of the Act;'.

By order of the board
S M Smith
Secretary
Solihull
2nd April 2004

Notes:

1 A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his or her stead. A proxy need not be a member of the Company.

2 The Company pursuant to Regulation 41(1) of the Uncertificated Securities Regulations 2001, specifies that only those holders of ordinary shares whose name appears on the register of members of the Company as at 6pm on 5th May 2004 shall be entitled to attend the AGM either in person or by proxy and the number of shares then registered in their respective names shall determine the number of votes such persons are entitled to cast at the meeting. Changes to entries on the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

3. A form of proxy is enclosed for the use of ordinary shareholders. The form should be completed, signed and returned so that it arrives at the office of the Company's registrars not less than 48 hours before the time of the meeting. By signing and returning the form of proxy, a shareholder will not be precluded from attending and voting in person should he or she subsequently find it possible to be present.

4. Copies of the contracts of service of directors (unless expiring or determinable by the Company within one year without payment of compensation) and the register of directors' interests in shares in the Company will be available for inspection at the Company's registered office between 9:00am and 5:30pm on any weekday (Saturdays and public holidays excluded) from the date of this notice up to and including the day before the meeting, and also at the place of the meeting for 15 minutes prior to the meeting and during the meeting.

5. An explanation of resolutions 12 to 15 (inclusive) is set out in the Report of the directors on page 15 under the heading 'Share Capital of the Company and Annual General Meeting'.

2004 financial calendar

Record date for final ordinary dividend	30th April
Annual General Meeting	7th May
Final ordinary dividend payable	4th June
Record date for interim ordinary dividend	5th November
Interim ordinary dividend payable	1st December

Main addresses & advisers

Main addresses & advisers

Head office and registered office

4 Arleston Way
Shirley
Solihull
B90 4LH
Telephone: 0121 711 6000
Fax: 0121 711 6001
e-mail: info@agafoodservice.com
Website: www.agafoodservice.com
Registered in England No. 354715

Registrars

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA
Telephone (Helpline): 0870 600 3953

Auditors

PricewaterhouseCoopers LLP

Financial advisers and joint stockbrokers

Dresdner Kleinwort Wasserstein

Joint stockbrokers

Arbuthnot

Printed on paper which is made from wood fibre from sustainable forests, is fully recyclable and biodegradable, totally chlorine free and produced at a mill that holds ISO 14001 certification

Designed and produced by Mulvihill Mitchell Ltd 0121 585 7010
Printed by Renaultprint Ltd 0121 356 0331

Web addresses

Aga Foodservice Group plc
www.agafoodservice.com

CONSUMER PRODUCTS

Agalinks
www.agalinks.com

Aga Ranges
www.aga-ranges.com

Aga-Rayburn
www.aga-rayburn.co.uk

Cookware and accessories
www.agacookshop.com

CookCraft
www.cookcraft.com

Domain
www.domain-home.com

Elgin and Hall
www.elgin.co.uk

Fired Earth
www.firedearth.com

Grange
www.grange.fr

Northland-Marvel
www.marvelindustries.com
www.northlandnka.com

Rangemaster
www.rangemaster.co.uk

FOODSERVICE PRODUCTS

Adamatic
www.adamatic.com

AFE Online
www.afeonline.co.uk

AFE Serviceline
www.afeserviceline.com

Belshaw Brothers, Inc
www.belshaw.com

Bongard SA
www.bongard.fr

Esmach
www.esmach.it

Falcon Foodservice Equipment
www.falconfoodservice.com

Millers Vanguard
www.millersvanguard.co.uk

Mono Equipment
www.monoequip.com

Victory Refrigeration
www.victory-refrig.com

Williams Refrigeration
www.williams-refrigeration.co.uk