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# 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 2002. These will be submitted to members at the Annual General Meeting to be held in The Britannia Suite, The National Motorcycle Museum, Coventry Road, Bickenhill, Solihull B92 0EJ, at 12 noon on Thursday 8th May 2003.

**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 52. An overview of the activities and business review of the Group and of the principal businesses is given on pages 4 to 13.

**Results and dividends**

The operating profit of the Group for the financial period was £23.8m (2001: £19.1m). The profit distributable to shareholders for the financial period was £19.5m (2001: £16.7m). An interim dividend of 1.9p per ordinary share was paid on 4th December 2002. The directors recommend a final dividend of 4.1p per ordinary share payable on 6th June 2003 to members on the register at the close of business on 2nd May 2003, making a total for the period of 6.0p per ordinary share (2001: 5.0p).

**Share capital of the company and Annual General Meeting**

Three resolutions relating to share capital will be proposed at the Annual General Meeting.

Resolution 10 renews the directors' authority under section 80 of the Companies Act 1985 ('the Act') to issue relevant securities up to a nominal value of £10,783,229 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 11 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 £1,617,484, being equivalent to 5% of the nominal value of the Company's issued ordinary share capital at the date of this report.

Resolution 12, which will be proposed as a special resolution, renews authority for the Company to make market purchases of up to 12,939,875 of its own shares representing 10% of the current issued ordinary share capital of the Company. 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 interests of shareholders generally.

The total number of outstanding options to subscribe for equity shares as at the date of this report was 6,108,104. These rights represent 4.72 per cent of the issued ordinary share capital as at such date and would represent 5.24 per cent of the issued ordinary share capital of the Company, if the full authority to purchase its own shares in accordance with Resolution 12 were to be exercised by the Company.

**Shareholders**

At 31st December 2002, the Company had 9,044 ordinary shareholders (2001: 9,814). Their holdings are analysed below:

| Number of shares | % of shareholders | % of shares in issue |
|---|---|---|
| 1 – 5,000 | 89.78 | 7.34 |
| 5,001 – 50,000 | 8.02 | 7.71 |
| 50,001 – 100,000 | 0.66 | 3.39 |
| 100,001 – 500,000 | 0.96 | 14.78 |
| Over 500,000 | 0.58 | 66.78 |
| | 100.00 | 100.00 |

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 shares |
|---|---|---|
| Britannic Investment Managers Ltd | 7,899,417 | 6.11% |
| Henderson Global Investors Ltd | 6,755,318 | 5.22% |
| Zurich Financial Services Group | 5,795,319 | 4.48% |
| BGI Europe | 4,327,514 | 3.34% |
| M&G Investment Management Ltd | 4,309,014 | 3.33% |
| Aviva plc | 4,121,040 | 3.18% |
| Legal & General Investment Management | 3,989,380 | 3.08% |

**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.

In accordance with the articles of association, Vic Cocker and Stephen Rennie retire by rotation, and being eligible, offer themselves for re-election. In accordance with best practice, Kit Farrow offers himself for re-election. John Lovering and Helen Mahy were appointed directors by the board on 14th March 2003 and in accordance with the articles of association, being eligible, offer themselves for re-election. Details of directors' remuneration are set out on page 20. The biographies of directors proposed for re-election appear on page 14.

# Report of the directors

## 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 follows:

| | At 21st March 2003 | At 31st December 2002 or date of appointment or resignation | At 31st December 2001 or date of appointment |
|---|---|---|---|
| C J Farrow | 21,000 | 21,000 | 21,000 |
| W B McGrath | 81,807 | 79,307 | 22,500 |
| S Rennie | 46,200 | 43,700 | 10,595 |
| S M Smith | 21,000 | 18,500 | 6,000 |
| V Cocker | – | – | – |
| A J Wilson | 99,308 | 99,308 | 21,475 |
| B A Nielsen | 1,425 | 1,425 | – |
| J D Lovering | – | – | – |
| H M Mahy | – | – | – |

Details of options exercisable by directors over shares in the Company are given on page 21. No director had an interest in any contract of significance with any Group company.

## Acquisitions and disposals

The principal acquisitions during the period were as follows:

| | |
|---|---|
| March 2002 | Domain, Inc. (USA) |
| April 2002 | Belshaw Brothers, Inc. (USA) |
| September 2002 | Grange SA (France) 19.9% |
| September 2002 | Troldahl (UK) |
| October 2002 | Bongard SA (France) |

In April 2002, the Group completed the disposal of its Leisure commodity cookers business to Beko (UK) Ltd and its Flavel fires business to CFM Kinder Ltd.

The purchases made in 2002 have been accounted for as acquisitions in accordance with accounting standard FRS 6. Details relating to the fair value of net assets acquired and the consideration are set out in note 23 to the accounts on page 49.

## 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 quick response times. Research expenditure is written off in the period in which it is incurred. In 2002 the research and development facility for range cookers was expanded at the centre of excellence in Leamington Spa. Newly acquired Belshaw has recently developed a process and the associated equipment, for cooking and icing frozen doughnuts ('Thermoglaze') in conjunction with one of its key customers. Williams Refrigeration is at the forefront of the development of secondary refrigeration for commercial catering applications which does not involve the use of greenhouse gases.

## 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 2002 equated to 75 days of related purchases (2001: 76 days).

## Employee involvement

The Group's management has an open policy on the communication of information to employees concerning factors affecting their interests in the development of the Group.

## 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 2002 the Group gave £13,745 (2001: £20,000) for charitable purposes in the UK. The principal beneficiaries were organisations concerned with the arts, children, people with physical disabilities and sport. The Aga Foodservice Group Charitable Trust also made charitable donations during the year of £32,000 in total (2001: £1,100). No political donations were made during the year (2001: 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.

# Report of the directors

### 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

Following the conversion of our auditors, PricewaterhouseCoopers, to a Limited Liability Partnership (LLP) from 1st January 2003, PricewaterhouseCoopers resigned on 13th March 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. Resolution 9 will be proposed at the Annual General Meeting to re-appoint PricewaterhouseCoopers LLP, as auditors to the Company.

Shaun Smith

By order of the board
S M Smith, Secretary
Solihull
21st March 2003

# Corporate governance

The board supports the principles of corporate governance advocated by the Combined Code and complied with its provisions in the year under review. It also notes Derek Higgs' Review of the Role and Effectiveness of Non-executive Directors and Sir Robert Smith's Report and Proposed Combined Code Guidance for Audit Committees. In addition, during 2002, the board considered and, where appropriate, implemented the guidelines on Corporate Social Responsibility (CSR) issued by the Association of British Insurers in October 2001. The board takes full responsibility for CSR and it is included in the risk management process.

### The board of directors

The board meets regularly and in total met seven times during 2002. Matters specifically reserved to the board for decision include material capital expenditure, approval of annual budgets and the development of corporate strategy. 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.

The board of directors of the Company currently comprises the non-executive chairman, three executive directors and four further non-executive directors. The roles of group chairman and group chief executive are held by separate directors and there is a clear division of responsibilities between them. Management reports fully to the board at each board meeting and additionally as required. All directors are suitably qualified and trained or experienced so as to be able to participate in the work of the board. Vic Cocker has been nominated as senior non-executive director. Non-executive directors are appointed for an initial term of 3 years pursuant to a letter of appointment. Details of fees paid during the year are set out on page 20.

In July 2003, Kit Farrow will have been a member of the board for ten years. Tony Wilson does not meet the test of independence under the recommendations outlined in the Higgs Report. It is not their intention to stand for re-election in 2004. The board expects to make further suitable non-executive appointments during the course of 2003. The board has also announced the executive appointment of Judy George and she will join the board as US retail director from 1st July 2003.

The non-executive directors fulfil a key role in corporate accountability and participate fully in the review of strategic proposals to help ensure that the interests of shareholders and relevant stakeholders in the Company are safeguarded.

All directors have access to the advice and services of the group secretary, who, with the chairman, is responsible for the proper conduct of board procedures. The group secretary reports to the chairman upon secretarial matters. 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.

### Audit committee

The audit committee was chaired by Kit Farrow until March 2003 and is now chaired by John Lovering. It normally meets at least three times each year and did so in 2002. Membership comprises all non-executive directors of the Company. It has written terms of reference which deal with its authority and duties which include keeping under review the scope and results of the audit and the

# Corporate governance

cost-effectiveness, independence and objectivity of the auditors. In addition, the committee receives reports from internal audit and specialists from within the Group. The committee also considers the nature and extent of auditors' supply of non-audit services, such as consultancy services.

**Nomination committee**

The nomination committee is under the chairmanship of Kit Farrow. The committee meets as and when required and met twice during 2002. Membership comprises the non-executive directors and such executive directors as may be co-opted, provided that a majority of non-executive directors is maintained at all times. The committee has written terms of reference and is responsible for nominating candidates with required skills and attributes for approval by the full board to fill vacancies on the board and ensure that the board has an appropriate balance of expertise and ability.

**Remuneration committee**

As detailed in the remuneration report on page 19.

**Internal control and risk management**

The board is responsible for the Group's systems of internal control, including internal financial control, operational and compliance controls and risk management and for monitoring their effectiveness. 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.

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 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 committee and the board receive regular reports on the 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 committee. The department has an annually agreed programme, which is approved by the audit committee. 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 committee. The board will continue to review the effectiveness of the Group's internal financial control systems.

Following a review of risk across the Group, a basis to assess 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 and regulatory issues. In 2002 the risk management process included social, environmental and ethical issues and in 2003 these will be grouped under the heading of Corporate Social Responsibility. A full risk and control assessment has been prepared in respect of the year to 31st December 2002 and will be updated during 2003.

**Risk factors**

As noted above, risk assessment of CSR issues was introduced in 2002. Although the board is confident of compliance with its CSR policies within Group companies, the review of the supply chain on CSR issues is on-going. It is intended to extend this review during 2003.

**Relations and 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.

# Corporate governance

Notice of the Annual General Meeting and related papers are sent to shareholders at least 20 working days before the meeting. Separate resolutions are proposed at the Annual General Meeting on each substantive issue. Shareholders attending the Annual General Meeting are entitled to ask questions and to meet with directors after formal proceedings have ended. The chairmen of the board, audit, remuneration and nomination committees are available at the Annual General Meeting to answer questions together with their fellow directors. At the Annual General Meeting proxy votes are announced by the chairman.

In the annual and interim reports, Annual General Meeting statement, results presentations and in city 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.

# Remuneration report

The Company has complied throughout the year under review with the Combined Code provisions concerning directors' remuneration and this report is prepared in accordance with the requirements of the Directors' Remuneration Report Regulations 2002. In accordance with the Regulations, resolution 8 invites the members to receive and adopt the remuneration report for the financial year ended 31st December 2002.

**Remuneration committee**

The remuneration committee is chaired by Vic Cocker and met four times during 2002. Membership comprises all independent non-executive directors of the Company. The chief executive officer is not a member of the committee but may attend its meetings by invitation. None of the executive directors were present at meetings of the committee during consideration of their own remuneration. The committee has written terms of reference and it is responsible for ensuring that remuneration of executive directors are reasonable and fair in comparison with other companies of broadly similar size and range of activities. During 2002, advice was provided to the remuneration committee by Whitehead Mann in respect of cash compensation levels of executive directors. In addition, Watson Wyatt provided pensions advice to the committee and Clifford Chance provided advice to the committee on the Company's Long-Term Incentive Plan. Hewitt Bacon & Woodrow assisted with the Company's total shareholder return ('TSR') performance measure and have been appointed to advise on remuneration policy and practice.

**Remuneration policy**

The remuneration committee determines the contracts of service and emoluments of executive directors. Executive directors' emoluments comprise annual salary, a discretionary annual bonus, personal pension plans, participation in long-term incentive plans and other benefits. 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.

The remuneration committee received advice from Whitehead Mann and on this basis established a salary and bonus package for the executive directors which would represent a competitive level taking into account the experience of the executive directors, strategic and operational objectives. Salaries based at a level sufficient to attract and retain directors needed to run the Company successfully and allow for personal progression.

**Remuneration in 2002**

The individual elements of remuneration of each director are set out in the table overleaf.

**Annual bonus**

Executive directors participate in a performance-related annual bonus scheme. Bonuses are payable based on performance measured against three business objectives, each contributing to a maximum bonus of 60% of salary. These objectives comprise earnings growth for underlying businesses (25%); earnings targets for acquired businesses (15%) and progress on a range of strategic parameters (20%). Based on the three business objectives, a bonus award of 45% of salary is payable to executive directors in respect of 2002. Details of annual bonuses paid in respect of 2002 are set out in the table overleaf.

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FOODSERVICE GROUP

# Remuneration report

| | Salary £000 | Fees £000 | Salary in lieu of pension above earnings cap £000 | Benefits in-kind £000 | Annual bonus £000 | **2002 Total £000** | 2001 Total £000 |
|---|---|---|---|---|---|---|---|
| **C J Farrow** | – | 75 | – | – | – | **75** | 75 |
| **W B McGrath** | 300 | – | 45 | 21 | 135 | **501** | 365 |
| **S Rennie** | 224 | – | – | 2 | 92 | **318** | 247 |
| **S M Smith** | 178 | – | 14 | 1 | 72 | **265** | 143 |
| **V Cocker** | – | 25 | – | – | – | **25** | 25 |
| **A J Wilson** | – | 25 | – | – | – | **25** | 132 |
| **B A Nielsen** (resigned January 2003) | – | 25 | – | – | – | **25** | 19 |
| **S L Howard** (retired May 2001) | – | – | – | – | – | **–** | 9 |
| **A Catanzano** (resigned March 2001) | – | – | – | – | – | **–** | 55 |
| **Total** | **702** | **150** | **59** | **24** | **299** | **1,234** | 1,070 |

- 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 2001 & 2002 for any director.

**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 executive directors and shareholders.

The percentage of shares awarded that the participant will actually be able to 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 sub 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 upper quartile position and the midpoint.

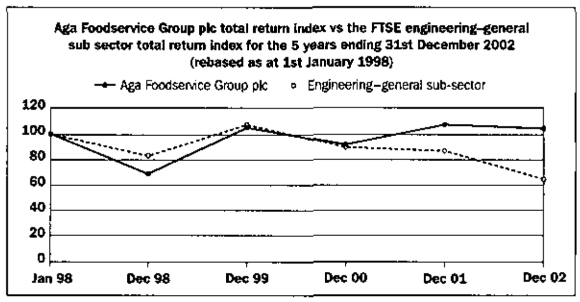
The TSR performance measure has been applied on the basis of best practice and advice provided by external consultants. The comparator group has been chosen because a substantial proportion of the Company's turnover is derived from engineering related activities. The committee is continuously reviewing the position in the light of the Company's strategic acquisition policy. The TSR performance has been measured by Hewitt Bacon & Woodrow.

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. The LTIP awards made to executive directors are set out opposite.

**Share options**

No share options were granted to executive directors under the 1994 Senior Executive Share Option Scheme during 2001 or 2002 as awards have been made to executive directors under the LTIP. This reflects the commitment made to shareholders when they approved the introduction of the LTIP.

The Company has senior executive and savings-related share option schemes, which it sees as a means of encouraging employees' closer involvement in the success



# Remuneration report

of the Group. Options granted under the 1994 Senior Executive Share Option Scheme 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 2% per annum the increase in the UK's retail price index over a period of three years beginning not earlier than the Company's last financial year before the date of an option grant. The options concerned are ordinarily exercisable in the periods set out below.

The mid-market price of Aga Foodservice Group plc ordinary shares at the beginning and end of the year was 216p and 205p respectively. During the year the market price of the shares ranged between 190p and 305.5p.

The interests of directors at the beginning and end of the 2002 financial year in the currently operating share option schemes were as stated in the table below.

**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 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 additional remuneration as detailed in the table on page 20.

| | 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 198pps** | **at 268pps** |
| **W B McGrath** | | | | | | |
| At 1st January 2002 | – | 175,000 | – | 8,479 | 75,757 | – |
| granted 25th April 2002 | – | – | – | – | – | 111,940 |
| exercised 13th September 2002 | – | – | – | – | 75,757* | – |
| At 31st December 2002 | – | 175,000 | – | 8,479 | – | 111,940 |
| **S Rennie** | | | | | | |
| At 1st January 2002 | 75,000 | – | – | – | 55,555 | – |
| granted 25th April 2002 | – | – | – | – | – | 76,492 |
| exercised 13th September 2002 | – | – | – | – | 55,555* | – |
| At 31st December 2002 | 75,000 | – | – | – | – | 76,492 |
| **S M Smith** | | | | | | |
| At 1st January 2002 | 7,500 | – | 30,000 | – | – | – |
| granted 25th April 2002 | – | – | – | – | – | 109,701 |
| At 31st December 2002 | 7,500 | – | 30,000 | – | – | 109,701 |
| **A J Wilson** | | | | | | |
| At 1st January 2002 | 100,000 | 150,000 | – | – | 136,363 | – |
| lapsed 10th March 2002 | 100,000 | 150,000 | – | – | – | – |
| exercised 13th September 2002 | – | – | – | – | 77,833* | – |
| lapsed 13th September 2002 | – | – | – | – | 58,530 | – |
| At 31st December 2002 | – | – | – | – | – | – |
| **Option grant date** | **2 Apr 97** | **5 May 98** | **21 Sep 99** | **15 Oct 99** | **23 Jun 99** | **25 Apr 02** |
| **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** | **23 Jun 02 to 22 Jun 09** | **25 Apr 05 to 24 Apr 12** |

* Exercised at £1 per award. The market price at date of exercise was 222.5 pence per share.
Gain on exercise W B McGrath £168,558; S Rennie £123,609 & A J Wilson £173,177.

# Remuneration report

| | Directors' Remuneration Report Regulations 2002 | | | | Listing Requirements | |
|---|---|---|---|---|---|---|
| | Accrued pension at 31 Dec 02 £000pa | Increase in accrued pension over the year £000pa | Transfer value of accrued pension at 31 Dec 01 £000 | Transfer value of accrued pension at 31 Dec 02 £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** | 16 | 3 | 102 | 100 | (5) | 3 | 17 |
| **S Rennie** | 99 | 13 | 957 | 856 | (107) | 12 | 91 |
| **S M Smith** | 26 | 2 | 190 | 163 | (30) | 2 | 10 |

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

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 £630 and £268 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.

**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 of the executive directors' service contracts have a notice period of one year. Dates of contracts currently in place are: William McGrath 21st March 2001; Stephen Rennie 1st January 1999; Shaun Smith 20th March 2001.

The remuneration committee does not consider it to be in the best interests of shareholders for directors' contracts to provide explicitly for pre-determined compensation in the event of termination and accordingly none of the contracts contains any such provision.

By order of the board
V Cocker
Chairman of the remuneration committee
Solihull
21st March 2003

# Corporate social responsibility

The board recognises the importance of corporate social responsibility (CSR) and the Group aims to fulfil its responsibilities to stakeholders including shareholders, employees, customers, suppliers and the communities in which the Group's businesses operate. The board has made a clear commitment to operate all its business activities with high standards of business ethics and integrity, as outlined in the Group's Statement of Core Principles. This was issued by the chief executive in December 2001 and is available on our website. The board has overall responsibility for ensuring that these CSR policies are regularly reviewed and verified, and the chief operating officer is responsible for implementation. Aga Foodservice Group is a member of the FTSE4Good index.

The board takes regular account of significant social, environmental and ethical matters. Short and long-term risks associated with these matters have been assessed and the Company is developing its policies and procedures to ensure these are being addressed appropriately.

**Employment**

As the Group's operations are mainly carried out by its operating subsidiaries, 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,

# Corporate social responsibility

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 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. Business unit management 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 whistleblowing policy has recently been extended to enable employees to report in confidence to an external party breaches of the Code of Conduct, fraud or any other criminal acts. This is in addition to existing designated internal contacts.

The Group has an established UK Human Resources Forum, attended by representatives of the businesses. Topics covered during the year include the use of appraisal systems, recruitment and selection techniques, equal opportunities monitoring and other current HR issues.

**Health, safety and environmental**

The Group regards environmental and health and safety matters as increasingly important for all 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 at work and environmental protection and seeks to keep all concerned aware of best practice and 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 report 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 their efficient operation.

The health and safety and environmental committees meet regularly to review standards, set targets for improvement and to promote best practice.

The health and safety committee has developed a system of internal audits using health and safety specialists to benchmark each other's operations. External consultants are utilised when specific needs arise, for example for specialist training needs or major projects.

In health and safety, the Group monitors reportable and non-reportable accidents at all operating units and sets annual improvement targets. In 2002 the Group exceeded its target of a 10% reduction in reportable and non-reportable accidents. All UK businesses are now members of the British Safety Council and two businesses received safety awards in 2002.

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.

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

Where appropriate, the Group supports the adoption and implementation of environmental management systems at our operating businesses. This is reflected by a number of locations working towards ISO 14001. In March 2003 the Rangemaster sites at Leamington Spa and Long Eaton have been formally recommended for the standard ISO 14001:1996.

Examples of the environmental initiatives underway across the Group include:

- During 2002 a further three manufacturing sites eliminated the use of chlorinated solvents for degreasing and replaced them with low alkali or aqueous (water based) cleaning agents.

- Victory & Williams Refrigeration use environmentally neutral refrigerants R134A and R404A. Use of R22 is minimal. It is used only in servicing and only at the specific request of customers. It is intended to eliminate its use during 2003. Victory has various models approved by ASHRAE and is an 'Energy Star Partner'. Williams has developed a secondary glycol refrigeration system and continues to provide safe disposal schemes in the UK and France.

- AFE Serviceline is developing energy monitoring schemes and is working with key customers in the

# Corporate social responsibility

supermarket sector to achieve a reduction in energy usage by informed use of technology, commissioning and servicing.

- In our consumer operations all electric cookers are labelled as required under the Energy Efficiency Directive. Our bestselling Rangemaster 110 model has achieved an AA rating on both its 67 litre conventional and fan assisted ovens.

In addition to managing the environmental impact of our day-to-day activities, we also seek to minimise the risk of environmental pollution incidents. Where such incidents occur, prompt corrective action is taken, and where appropriate the relevant regulatory authorities are notified. During the year, there were no fines or prosecutions as a result of environmental incidents.

**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 has therefore introduced an ethical trading code which encompasses a set of global sourcing principles covering fair terms of employment, human rights, health and safety, equal opportunities and good environmental practice. Every operating company is required to review compliance with the code throughout its supply chain and to monitor any areas of non-conformance. The board's target is to seek confirmation of supplier compliance by the end of 2003.

**Community involvement**

Each operating company and its employees is 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. Examples include payroll giving schemes, sponsored events, the donation of gifts received to local charities and good causes, work experience and university placements. The Group has sponsored Birchfield Harriers, a Birmingham based athletics club, which has strong local community links. A variety of charities have held meetings and events at the Group's retail outlets and liaison on community issues is encouraged. Any external complaints are logged, responded to and data collated 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 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

| Turnover | Notes | 2002 £m | 2001 £m |
|---|---|---|---|
| Continuing operations | | **266.9** | |
| Acquisitions | | **56.4** | |
| Total continuing operations | | **323.3** | 209.8 |
| Discontinued operations | | **7.0** | 160.5 |
| **Total turnover** | 2 & 3 | **330.3** | 370.3 |
| **Operating profit** | | | |
| Continuing operations | | **24.7** | |
| Acquisitions | | **6.1** | |
| Total continuing operating profit before goodwill amortisation | | **30.8** | 20.3 |
| Goodwill amortisation | | **(6.5)** | (4.3) |
| | | **24.3** | 16.0 |
| Continuing operations | | **19.2** | 16.0 |
| Acquisitions | | **5.1** | – |
| Total continuing operations | | **24.3** | 16.0 |
| Discontinued operations | | **(0.5)** | 3.1 |
| **Total operating profit** | 2 & 3 | **23.8** | 19.1 |
| Net interest receivable | 6 | **3.2** | 5.6 |
| **Profit on ordinary activities before tax** | | **27.0** | 24.7 |
| Tax on profit on ordinary activities | 7 | **(7.4)** | (7.9) |
| **Profit on ordinary activities after tax** | | **19.6** | 16.8 |
| Equity minority interests | 22 | **(0.1)** | (0.1) |
| Profit attributable to shareholders | | **19.5** | 16.7 |
| Dividends | 9 | **(7.8)** | (7.7) |
| **Profit retained** | 21 | **11.7** | 9.0 |

| **Earnings per share** | 10 | **p** | p |
|---|---|---|---|
| Basic | | **15.2** | 9.5 |
| Diluted | | **15.1** | 9.5 |
| Basic - before goodwill amortisation | | **20.2** | 13.0 |

Notes to the accounts are on pages 30 to 52.

AGA
FOODSERVICE GROUP

# Supplementary statements

For the year ended 31st December

## Statement of total recognised gains and losses

| | Notes | 2002 £m | 2001 £m |
|---|---|---|---|
| Profit attributable to shareholders | | **19.5** | 16.7 |
| Exchange adjustments on net investments | 21 | **(3.3)** | (0.3) |
| **Total recognised gains and losses since last annual report** | | **16.2** | 16.4 |

## Note of historical cost profit

| | Notes | 2002 £m | 2001 £m |
|---|---|---|---|
| Reported profit before tax | | **27.0** | 24.7 |
| Realisation of property revaluation gains of previous years | | **2.8** | 1.2 |
| Historical cost profit on ordinary activities before tax | | **29.8** | 25.9 |
| Tax on profit on ordinary activities | 7 | **(7.4)** | (7.9) |
| Equity minority interests | 22 | **(0.1)** | (0.1) |
| Dividends | 9 | **(7.8)** | (7.7) |
| **Historical cost profit retained** | | **14.5** | 10.2 |

## Reconciliation of movements in shareholders' funds

| | | Notes | 2002 £m | 2001 £m |
|---|---|---|---|---|
| Total recognised gains and losses relating to the year | | | **16.2** | 16.4 |
| Dividends | | 9 | **(7.8)** | (7.7) |
| New share capital subscribed | - share premium | 21 | **3.2** | 30.8 |
| | - share capital | 20 | **0.4** | 4.0 |
| Future share scheme issues | | 20 | **0.2** | – |
| Share buybacks | - ordinary shares | | **-** | (32.7) |
| | - profit and loss account | | **-** | (336.3) |
| | - capital redemption reserve | | **-** | 32.7 |
| Goodwill reinstated on disposals | | | **-** | 175.8 |
| Net increase / (decrease) in shareholders' funds | | | **12.2** | (117.0) |
| Shareholders' funds at 1st January | | | **258.4** | 375.4 |
| **Shareholders' funds at 31st December** | | | **270.6** | 258.4 |

Notes to the accounts are on pages 30 to 52.

# Balance sheets

As at 31st December

| | Notes | Group 2002 £m | Group 2001 £m | Company 2002 £m | Company 2001 £m |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Goodwill | 11 | **138.2** | 97.7 | **–** | – |
| Tangible assets | 12 | **62.2** | 49.0 | **–** | – |
| Investments | 13 | **2.8** | – | **466.7** | 143.0 |
| **Total fixed assets** | | **203.2** | 146.7 | **466.7** | 143.0 |
| **Current assets** | | | | | |
| Stocks | 14 | **52.0** | 36.8 | **–** | – |
| Debtors | 15 | **93.1** | 60.7 | **288.3** | 590.8 |
| Cash at bank and in hand | 17 | **78.8** | 157.4 | **61.3** | 145.1 |
| **Total current assets** | | **223.9** | 254.9 | **349.6** | 735.9 |
| **Creditors – amounts falling due within one year** | | | | | |
| Operating creditors | 16 | **(89.6)** | (59.0) | **(213.1)** | (289.7) |
| Borrowings | 17 | **(22.5)** | (32.7) | **(21.9)** | (18.5) |
| Tax and dividends payable | 16 | **(7.5)** | (11.0) | **(5.3)** | (4.2) |
| **Total amounts falling due within one year** | | **(119.6)** | (102.7) | **(240.3)** | (312.4) |
| **Net current assets** | | **104.3** | 152.2 | **109.3** | 423.5 |
| **Total assets less current liabilities** | | **307.5** | 298.9 | **576.0** | 566.5 |
| **Creditors – amounts falling due after more than one year** | | | | | |
| Creditors | 16 | **(2.4)** | – | **–** | – |
| Borrowings | 17 | **(0.8)** | (8.6) | **–** | (8.4) |
| **Provisions for liabilities and charges** | 19 | **(33.3)** | (31.5) | **(16.3)** | (18.1) |
| **Total net assets employed** | | **271.0** | 258.8 | **559.7** | 540.0 |
| **Capital and reserves** | | | | | |
| Called up share capital | 20 | **32.3** | 31.9 | **32.3** | 31.9 |
| Share premium account | 21 | **59.9** | 56.7 | **59.9** | 56.7 |
| Revaluation reserve | 21 | **3.0** | 5.8 | **–** | – |
| Capital redemption reserve | 21 | **35.0** | 35.0 | **35.0** | 35.0 |
| Profit and loss account | 21 | **140.4** | 129.0 | **432.5** | 416.4 |
| **Total shareholders' funds** | | **270.6** | 258.4 | **559.7** | 540.0 |
| Equity minority interests | 22 | **0.4** | 0.4 | **–** | – |
| **Total funds** | | **271.0** | 258.8 | **559.7** | 540.0 |

The accounts on pages 25 to 52 were approved by the board of directors on 21st March 2003 and were signed on its behalf by:

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

**S M Smith** **Finance Director** Shaun Smith

Notes to the accounts are on pages 30 to 52.

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# Group cash flow statement

For the year ended 31st December

| | Notes | 2002 £m | 2002 £m | 2001 £m | 2001 £m |
|---|---|---|---|---|---|
| **Net cash inflow / (outflow) from operating activities** | | | **21.3** | | (12.3) |
| **Returns on investments and servicing of finance** | | | **3.9** | | 4.9 |
| **Tax paid** | | | **(7.8)** | | (4.3) |
| **Capital expenditure and financial investment** | | | **(8.2)** | | (9.5) |
| **Acquisitions and disposals** | 23 | | **(43.3)** | | 809.0 |
| **Equity dividends paid** | | | **(6.7)** | | (24.8) |
| **Net cash (outflow) / inflow before financing** | | | **(40.8)** | | 763.0 |
| **Financing** | | | | | |
| - issue of ordinary share capital | 24 | **3.8** | | 34.8 | |
| - buyback of ordinary share capital | 24 | **-** | | (336.3) | |
| - decrease in debt | 24 | **(41.5)** | | (321.5) | |
| Net financing | | | **(37.7)** | | (623.0) |
| **(Decrease) / increase in cash in the year** | 25 | | **(78.5)** | | 140.0 |

| | Notes | 2002 £m | 2002 £m | 2001 £m | 2001 £m |
|---|---|---|---|---|---|
| **Reconciliation of net cash flow to movement in net cash / (borrowings)** | | | | | |
| (Decrease) / increase in cash in the year | 25 | **(78.5)** | | 140.0 | |
| Decrease in debt | 24 | **41.5** | | 321.5 | |
| Change in net cash resulting from cash flows | 25 | | **(37.0)** | | 461.5 |
| Borrowings acquired with acquisitions | 23 | | **(24.6)** | | (22.3) |
| Loan notes cancelled / (issued) for acquisitions | 23 | | **0.3** | | (20.2) |
| Exchange adjustments | 25 | | **0.7** | | 1.4 |
| **(Decrease) / increase in net cash** | | | **(60.6)** | | 420.4 |
| Opening net cash / (borrowings) | | | **116.1** | | (304.3) |
| **Closing net cash** | | | **55.5** | | 116.1 |

This statement should be read in conjunction with the reconciliations on page 29.

Notes to the accounts are on pages 30 to 52.

# Group cash flow statement – reconciliations

For the year ended 31st December

## Reconciliation of operating profit to net cash inflow / (outflow) from operating activities

| | Notes | **2002 £m** | 2001 £m |
|---|---|---|---|
| Operating profit | | **23.8** | 19.1 |
| Goodwill amortisation | 3 | **6.5** | 6.6 |
| Depreciation | 3 | **6.7** | 10.4 |
| Profit on disposal of fixed assets | 3 | **(1.2)** | (1.4) |
| (Increase) / decrease in stocks | | **0.6** | (12.1) |
| (Increase) / decrease in debtors | | **(13.9)** | (17.3) |
| Increase / (decrease) in creditors | | **2.0** | (16.2) |
| Increase / (decrease) in provisions | | **(3.2)** | (1.4) |
| **Net cash inflow / (outflow) from operating activities** | | **21.3** | (12.3) |

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

## Returns on investments and servicing of finance

| | Notes | **2002 £m** | 2001 £m |
|---|---|---|---|
| Net interest receivable | 6 | **3.2** | 5.6 |
| Movement in prepayments and accruals | | **0.7** | (0.7) |
| **Net interest received** | | **3.9** | 4.9 |
| Interest received | | **5.0** | 10.0 |
| Interest paid | | **(1.1)** | (5.1) |
| **Net cash inflow from returns on investments and servicing of finance** | | **3.9** | 4.9 |

## Capital expenditure and financial investment

| | Notes | **2002 £m** | 2001 £m |
|---|---|---|---|
| Purchase of tangible fixed assets | 12 | **(14.8)** | (12.8) |
| Sale of tangible fixed assets | | **6.6** | 3.3 |
| **Net cash outflow from capital expenditure and financial investment** | | **(8.2)** | (9.5) |

Notes to the accounts are on pages 30 to 52.

# 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.

### 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 reserves 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.

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 supplied 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.

### Research and development

Research and development expenditure is written off in the year in which it is incurred.

### 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 12 1/2 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

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.

### 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 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.

# Notes to the accounts

### 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.

### 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 | 2002 Turnover | 2002 Operating profit | 2002 Net operating assets | 2001 Turnover | 2001 Operating profit | 2001 Net operating assets |
|---|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | £m | £m | £m |
| Consumer Products | **173.6** | **17.4** | **52.0** | 107.1 | 9.6 | 44.5 |
| Foodservice Products | **149.7** | **13.4** | **54.8** | 102.7 | 10.7 | 38.1 |
| Total continuing operations | **323.3** | **30.8** | **106.8** | 209.8 | 20.3 | 82.6 |
| Goodwill – continuing | **–** | **(6.5)** | **138.2** | – | (4.3) | 97.7 |
| Discontinued operations | **7.0** | **(0.5)** | **(18.3)** | 160.5 | 3.1 | (21.2) |
| **Total Group** | **330.3** | **23.8** | **226.7** | 370.3 | 19.1 | 159.1 |

An analysis of net operating assets by category of asset is given on page 54.

Turnover between business groups is immaterial. Goodwill amortisation on continuing operations relates to Foodservice Products £4.5m (2001: £3.6m) and Consumer Products £2.0m (2001: £0.7m).

Consumer Products 2001 operating profit includes costs of £2.3m which were disclosed as exceptional in 2001.

Consumer Products includes acquisition turnover of £35.3m and operating profit before goodwill of £3.0m and Foodservice Products includes acquisition turnover of £21.1m and operating profit before goodwill of £3.1m.

| By geographical origin | 2002 Turnover | 2002 Operating profit | 2002 Net operating assets | 2001 Turnover | 2001 Operating profit | 2001 Net operating assets |
|---|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | £m | £m | £m |
| United Kingdom | **229.1** | **23.4** | **90.9** | 182.9 | 20.1 | 77.9 |
| North America | **79.5** | **6.2** | **5.5** | 22.0 | (0.1) | 3.4 |
| Rest of World | **14.7** | **1.2** | **10.4** | 4.9 | 0.3 | 1.3 |
| Total continuing operations | **323.3** | **30.8** | **106.8** | 209.8 | 20.3 | 82.6 |
| Goodwill – continuing | **–** | **(6.5)** | **138.2** | – | (4.3) | 97.7 |
| Discontinued operations | **7.0** | **(0.5)** | **(18.3)** | 160.5 | 3.1 | (21.2) |
| **Total Group** | **330.3** | **23.8** | **226.7** | 370.3 | 19.1 | 159.1 |

Goodwill amortisation on continuing operations relates to United Kingdom £4.6m (2001: £3.5m), North America £1.7m (2001: £0.8m) and Rest of World £0.2m (2001: nil).

| Turnover by geographical destination | 2002 £m | 2002 % | 2001 £m | 2001 % |
|---|---|---|---|---|
| United Kingdom | **216.9** | **67.1** | 171.1 | 81.6 |
| North America | **78.9** | **24.4** | 22.3 | 10.6 |
| Rest of World | **27.5** | **8.5** | 16.4 | 7.8 |
| **Total continuing operations** | **323.3** | **100.0** | 209.8 | 100.0 |

# Notes to the accounts

## 3 Net operating costs

| | 2002 | | | 2001 | | |
|---|---|---|---|---|---|---|
| | **Continuing** | **Dis-continued** | **Total** | Continuing | Dis-continued | Total |
| | **£m** | **£m** | **£m** | £m | £m | £m |
| **Turnover** | **323.3** | **7.0** | **330.3** | 209.8 | 160.5 | 370.3 |
| Less operating (profit) / loss | **(24.3)** | **0.5** | **(23.8)** | (16.0) | (3.1) | (19.1) |
| **Net operating costs** | **299.0** | **7.5** | **306.5** | 193.8 | 157.4 | 351.2 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Net operating costs** | | | | | | |
| Raw materials and consumables | **128.2** | **4.2** | **132.4** | 77.4 | 78.4 | 155.8 |
| Staff costs (note 4) | **92.9** | **1.1** | **94.0** | 62.8 | 48.5 | 111.3 |
| Other operating charges | **63.0** | **2.3** | **65.3** | 44.0 | 25.3 | 69.3 |
| Change in stocks of finished goods and work in progress | **(1.0)** | **(0.1)** | **(1.1)** | (2.1) | (7.9) | (10.0) |
| Other operating income | **(5.4)** | **-** | **(5.4)** | (4.2) | (1.9) | (6.1) |
| Other external charges | **8.1** | **-** | **8.1** | 6.8 | 7.1 | 13.9 |
| Amortisation of goodwill (note 11) | **6.5** | **-** | **6.5** | 4.3 | 2.3 | 6.6 |
| Depreciation of tangible fixed assets (note 12) | **6.7** | **-** | **6.7** | 4.8 | 5.6 | 10.4 |
| **Net operating costs** | **299.0** | **7.5** | **306.5** | 193.8 | 157.4 | 351.2 |

The figures for 2002 include the following amounts which relate to acquisitions during the year:

| | **Belshaw £m** | **Domain £m** | **Bongard £m** | **Other £m** | **Total £m** |
|---|---|---|---|---|---|
| **Turnover** | 9.9 | 35.3 | 9.1 | 2.1 | **56.4** |
| Less operating profit | (2.1) | (2.6) | (0.4) | - | **(5.1)** |
| **Net operating costs** | **7.8** | **32.7** | **8.7** | **2.1** | **51.3** |

| | | | | | |
|---|---|---|---|---|---|
| **Net operating costs** | | | | | |
| Raw materials and consumables | 2.0 | 16.9 | 4.0 | 1.1 | **24.0** |
| Staff costs | 3.0 | 7.0 | 2.6 | 0.7 | **13.3** |
| Other operating charges | 2.1 | 9.5 | (0.3) | 0.2 | **11.5** |
| Change in stocks of finished goods and work in progress | 0.1 | - | 0.2 | 0.1 | **0.4** |
| Other operating income | - | (1.7) | - | - | **(1.7)** |
| Other external charges | - | - | 1.8 | - | **1.8** |
| Amortisation of goodwill | 0.4 | 0.4 | 0.2 | - | **1.0** |
| Depreciation of tangible fixed assets | 0.2 | 0.6 | 0.2 | - | **1.0** |
| **Net operating costs** | **7.8** | **32.7** | **8.7** | **2.1** | **51.3** |

The turnover of Belshaw, Domain, Bongard and the other acquisitions for the full year to 31st December 2002 was £13.7m, £44.6m, £54.3m and £6.0m, respectively.

The operating profit before goodwill amortisation and acquisition related costs of Belshaw, Domain, Bongard and the other acquisitions for the full year to 31st December 2002 was £3.0m, £3.0m, £2.5m and nil, respectively.

# Notes to the accounts

## 3 Net operating costs (continued)

Net operating costs include the following:

| | 2002 £m | 2001 £m |
|---|---|---|
| **Exceptional costs** | – | 2.3 |
| **Profit on disposal of tangible fixed assets** | **1.2** | 2.4 |
| **Research and development** | **2.5** | 3.4 |
| **Rentals under operating leases** | | |
| - Plant and machinery | **2.4** | 3.0 |
| - Other | **6.4** | 3.0 |
| **Auditors' remuneration** | | |
| - Audit services provided by primary auditors (Company £22,000 (2001: £23,000)) | **0.2** | 0.2 |
| - Other services provided by primary auditors | **0.7** | 0.8 |
| **Other services received from other professional accountants** | **1.0** | 0.4 |

## 4 Employee information

| **Average number of employees (including directors)** | **2002** | 2001 |
|---|---|---|
| Consumer Products | **2,018** | 1,680 |
| Foodservice Products | **1,894** | 1,491 |
| Continuing | **3,912** | 3,171 |
| Discontinued | **95** | 1,655 |
| **Total** | **4,007** | 4,826 |

| | **2002** | | | 2001 | | |
|---|---|---|---|---|---|---|
| | **Continuing** | **Dis-continued** | **Total** | Continuing | Dis-continued | Total |
| **Staff costs (including directors)** | **£m** | **£m** | **£m** | £m | £m | £m |
| Wages and salaries | **83.9** | **1.0** | **84.9** | 57.1 | 41.8 | 98.9 |
| Social security costs | **8.4** | **0.1** | **8.5** | 5.4 | 5.8 | 11.2 |
| Other pension costs | **0.6** | – | **0.6** | 0.3 | 0.9 | 1.2 |
| **Total staff costs** | **92.9** | **1.1** | **94.0** | 62.8 | 48.5 | 111.3 |

**Directors' emoluments**

Details of directors' emoluments are set out in the remuneration report on pages 19 to 22.

## 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 and the Amari plc Pension and Life Assurance Plan. Various defined contribution schemes exist across the Group and the total contributions in the year were £0.6m (2001: £1.2m).

# Notes to the accounts

## 5 Pension costs (continued)

The latest full valuation of the main United Kingdom scheme was carried out by Watson Wyatt Partners, independent consulting actuaries, as at 1st July 2000 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 1.5% greater than general salary increases, and between 2.25% and 3% greater than increases in future pension payments. The results of the valuation showed that the scheme had an aggregate market value of £793.0m and was 107% funded. The surplus has been spread forward on the fixed monetary amount basis. This valuation has been used for the 2002 accounts. At 31st December 2002 the pension prepayment held in the Group's balance sheet is £20.9m (2001: £13.5m). The amount charged to the profit and loss account in the year to 31st December 2002 was nil (2001: nil). The combination of the normal pension cost for 2002 and the full amortisation of surplus shown in the valuation would generate a pension credit of approximately £5m. As in the past, no credit has been taken in the profit and loss account in 2002 for pensions and a nil cost has been recorded, as such a net credit situation is unlikely to recur following the next full valuation.

### FRS 17 Retirement Benefits

The valuation used for FRS 17 disclosures has been based on an updated actuarial valuation at 31st December 2002 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 2002. Scheme assets are stated at their market value at 31st December 2002. The financial assumptions used to calculate scheme liabilities under FRS 17 were:

| | **2002** | 2001 |
|---|---|---|
| Rate of increase in salaries | **3.50%** | 3.75% |
| Rate of increase of pensions in payment | **2.00 - 3.15%** | 2.50 - 3.25% |
| Discount rate | **5.65%** | 5.85% |
| Inflation assumption | **2.00%** | 2.25% |

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

| | **Long term asset returns expected 2002** | **2002** | Long term asset returns expected 2001 | 2001 |
|---|---|---|---|---|
| | **%** | **£m** | % | £m |
| Equities | **8.3** | **221.1** | 7.5 | 333.9 |
| Bonds | **5.3** | **282.5** | 5.6 | 272.9 |
| Property | **6.7** | **61.3** | 6.6 | 60.9 |
| Other | **3.8** | **20.5** | 4.3 | 17.7 |
| Total market value of assets | **6.5** | **585.4** | 6.6 | 685.4 |
| Actuarial value of liabilities | | **(649.0)** | | (685.1) |
| **(Deficit) / surplus in the scheme** | | **(63.6)** | | 0.3 |
| Related deferred tax asset | | **19.1** | | – |
| **Net pension (deficit) / asset** | | **(44.5)** | | 0.3 |

Group scheme contributions of £7.4m based on pensionable salaries were made during the year ended 31st December 2002. It has been agreed with the trustees that contributions for the next year will be 18.2% (2001: 18.2%) for all members accruing benefits on a final salary basis with the exception of members of the former 1970 scheme and 36.5% (2001: 36.5%) 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.

| | **2002** | 2001 |
|---|---|---|
| | **£m** | £m |
| Net assets excluding pension (deficit) / asset | **256.2** | 249.2 |
| Net pension (deficit) / asset | **(44.5)** | 0.3 |
| **Net assets including pension (deficit) / asset** | **211.7** | 249.5 |
| Profit and loss account excluding pension (deficit) / asset | **125.6** | 119.4 |
| Pension reserve | **(44.5)** | 0.3 |
| **Profit and loss account including pension reserve** | **81.1** | 119.7 |

# 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:

| | 2002 £m |
|---|---|
| Current service cost | 7.0 |
| Past service cost | – |
| **Total operating charge** | **7.0** |

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

| | 2002 £m |
|---|---|
| Expected return on pension scheme assets | 42.0 |
| Interest on pension scheme liabilities | (37.3) |
| **Net return** | **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:

| | 2002 £m |
|---|---|
| Actual loss on pension scheme assets | (85.1) |
| Experience gains arising on the scheme liabilities | 9.8 |
| Changes in the assumptions underlying the present value of the scheme liabilities | 6.1 |
| **Actuarial loss** | **(69.2)** |

| **Movement in surplus / (deficit) of the aggregated schemes during the year** | 2002 £m |
|---|---|
| Surplus of the schemes at the beginning of the year | 0.3 |
| Movement: | |
| Current service cost | (7.0) |
| Contributions | 7.6 |
| Other finance income | 4.7 |
| Actuarial loss | (69.2) |
| **Deficit of the schemes at the end of the year** | **(63.6)** |

| **History of experience gains and losses** | 2002 £m |
|---|---|
| Difference between the actual and expected return on scheme assets: | |
| Amount of loss | (85.1) |
| Percentage of scheme assets | 14.5% |
| Experience gains and losses on scheme liabilities: | |
| Amount of gain | 9.8 |
| Percentage of scheme liabilities | 1.5% |
| Total amount which would have been recognised in statement of total recognised gains and losses: | |
| Amount of loss | (69.2) |
| Percentage of scheme liabilities | 10.7% |

# Notes to the accounts

## 6 Interest

| | 2002 £m | 2001 £m |
|---|---|---|
| Interest payable: | | |
| Bank loans and overdrafts | **0.3** | 4.8 |
| All other borrowings | **0.7** | 0.5 |
| Total interest payable | **1.0** | 5.3 |
| Less interest receivable and similar income | **(4.2)** | (10.9) |
| **Net interest receivable** | **(3.2)** | (5.6) |

## 7 Tax on profit on ordinary activities

| | 2002 £m | 2001 £m |
|---|---|---|
| United Kingdom corporation tax based on a rate of 30% (2001: 30%): | | |
| Current tax on income for year | **3.7** | 5.3 |
| Adjustments in respect of prior years | **(2.1)** | 1.1 |
| Corporation tax | **1.6** | 6.4 |
| Deferred tax charge in the year | **2.4** | 0.4 |
| Adjustments in respect of prior years | **0.8** | – |
| Deferred tax (note 19) | **3.2** | 0.4 |
| Total United Kingdom tax | **4.8** | 6.8 |
| Overseas tax | | |
| Current tax on income for year | **1.9** | 1.2 |
| Adjustments in respect of prior years | **0.7** | 0.1 |
| | **2.6** | 1.3 |
| Deferred tax | **–** | (0.2) |
| Total overseas tax | **2.6** | 1.1 |
| **Tax on profit on ordinary activities** | **7.4** | 7.9 |
| Tax on exceptional costs | **–** | (0.7) |

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

| | 2002 £m | 2001 £m |
|---|---|---|
| Profit on ordinary activities before tax | **27.0** | 24.7 |
| Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001: 30%) | **8.1** | 7.4 |
| Effects of: | | |
| - non-deductible expenses (primarily goodwill amortisation) | **3.5** | 2.0 |
| - other timing differences | **(3.2)** | (2.0) |
| - adjustment to tax charge in respect of prior years | **(0.6)** | 1.2 |
| - lower rates of tax on overseas earnings | **(0.4)** | (0.7) |
| **Current tax charge for the year** | **7.4** | 7.9 |

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# Notes to the accounts

## 8 Profit for the year

Group profit after tax and minority interests for the year was £19.5m (2001: £16.7m). 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 was £23.6m (2001: £120.7m).

## 9 Dividends

| | 2002 | 2001 |
|---|---|---|
| **Ordinary dividends** | **£m** | £m |
| Interim paid of 1.9p per share (2001: 1.7p) | **2.5** | 2.2 |
| Proposed final of 4.1p per share (2001: 3.3p) | **5.3** | 4.2 |
| **Total of 6.0p per share (2001: 5.0p)** | **7.8** | 6.4 |
| Dividends paid on conversion of Exchangeables | **–** | 1.3 |
| **Total dividends** | **7.8** | 7.7 |

## 10 Earnings per share

| | 2002 | 2001 |
|---|---|---|
| **Earnings** | **£m** | £m |
| Profit on ordinary activities after tax | **19.6** | 16.8 |
| Minority interests | **(0.1)** | (0.1) |
| Goodwill amortisation net of tax | **6.5** | 6.0 |
| Earnings before goodwill amortisation | **26.0** | 22.7 |
| | | |
| Profit on ordinary activities after tax | **19.6** | 16.8 |
| Minority interests | **(0.1)** | (0.1) |
| Earnings – for basic and diluted EPS | **19.5** | 16.7 |
| | | |
| **Weighted average number of shares in issue** | **million** | million |
| For basic EPS calculation | **128.5** | 174.9 |
| Dilutive effect of share options | **0.5** | – |
| For diluted EPS calculation | **129.0** | 174.9 |
| | | |
| **Earnings per share** | **p** | p |
| Basic | **15.2** | 9.5 |
| Diluted | **15.1** | 9.5 |
| Basic - before goodwill amortisation | **20.2** | 13.0 |

The additional basic 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 - goodwill

| Group | 2002 £m | 2001 £m |
|---|---|---|
| **Cost** | | |
| At 1st January | **108.9** | 302.8 |
| Exchange adjustment | **(3.5)** | (0.9) |
| Arising from acquisitions in the year (note 23) | **49.4** | 41.8 |
| Disposals in the year | **–** | (234.8) |
| Arising from adjustment to prior year acquisitions (note 23) | **0.8** | – |
| At 31st December | **155.6** | 108.9 |
| **Amortisation** | | |
| At 1st January | **11.2** | 27.0 |
| Exchange adjustment | **(0.3)** | (0.1) |
| Disposals in the year | **–** | (22.3) |
| Charge for the year | **6.5** | 6.6 |
| At 31st December | **17.4** | 11.2 |
| **Net book value at 31st December** | **138.2** | 97.7 |

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 (2001: 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 | 28.4 | 66.4 | 0.7 | **95.5** |
| Exchange adjustment | (0.8) | (0.9) | – | **(1.7)** |
| Businesses acquired | 16.5 | 12.0 | 0.1 | **28.6** |
| Capital expenditure | 4.4 | 9.4 | 1.0 | **14.8** |
| Disposals | (6.0) | (4.6) | – | **(10.6)** |
| Reclassification | 2.6 | (0.4) | (0.7) | **1.5** |
| At 31st December | 45.1 | 81.9 | 1.1 | **128.1** |
| **Depreciation** | | | | |
| At 1st January | 2.2 | 44.3 | – | **46.5** |
| Exchange adjustment | (0.4) | (0.5) | – | **(0.9)** |
| Businesses acquired | 8.9 | 8.4 | – | **17.3** |
| Charge for the year | 1.1 | 5.6 | – | **6.7** |
| Disposals | (0.8) | (4.4) | – | **(5.2)** |
| Reclassification | 2.4 | (0.9) | – | **1.5** |
| At 31st December | 13.4 | 52.5 | – | **65.9** |
| **Net book value at 31st December** | **31.7** | **29.4** | **1.1** | **62.2** |
| Net book value at 1st January | 26.2 | 22.1 | 0.7 | 49.0 |

The Company holds no tangible fixed assets (2001: nil).

# Notes to the accounts

## 12 Tangible fixed assets (continued)

All tangible fixed assets are held at cost except for £14.5m of land and buildings valued professionally in 1995.

The historical cost to the relevant businesses of tangible fixed assets amounts to £127.2m (2001: £91.9m) and the accumulated depreciation thereon is £68.0m (2001: £48.7m), giving a net historical book value of £59.2m (2001: £43.2m).

The net book value of tangible fixed assets includes £0.1m (2001: £0.4m) in respect of assets held under finance leases. Depreciation for the year on these assets was nil (2001: £0.1m).

| The net book value of land and buildings comprises: | **2002 £m** | 2001 £m |
|---|---|---|
| Freehold | **25.8** | 23.9 |
| Long leasehold | **0.9** | 0.2 |
| Short leasehold | **5.0** | 2.1 |
| **Total** | **31.7** | 26.2 |

Included in land and buildings are properties, with a cost of £8.0m and related depreciation of £1.2m, 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** | **2002 £m** | 2001 £m |
|---|---|---|
| **Interest in associated undertakings** | | |
| Fair value of consideration given (note 23) | **2.8** | – |
| Share of net assets acquired | **(0.2)** | – |
| Goodwill on acquisition | **2.6** | – |
| Share of net assets excluding goodwill | **0.2** | – |
| **Investment in associated undertakings** | **2.8** | – |

On 23rd September the Group acquired a shareholding of 19.9% in Grange SA (France), a manufacturer of retail furniture. On the 17th March 2003 the Group increased its shareholding to 40.7%. Grange has been accounted for as an associated undertaking due to the nature of the investment. The Group's share of post acquisition profits is 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 | 217.5 | (74.5) | **143.0** | 580.2 | (288.4) | **434.8** |
| Additions | 2.5 | – | **2.5** | (2.5) | – | **–** |
| Intra group transfers | 368.7 | (41.9) | **326.8** | (326.8) | – | **–** |
| Other movements | – | (5.6) | **(5.6)** | 28.2 | 76.2 | **98.8** |
| **At 31st December** | **588.7** | **(122.0)** | **466.7** | **279.1** | **(212.2)** | **533.6** |

## 14 Stocks

| **Group** | **2002 £m** | 2001 £m |
|---|---|---|
| Raw materials and consumables | **11.1** | 7.9 |
| Work in progress | **8.8** | 10.0 |
| Finished goods and goods for resale | **32.1** | 18.9 |
| **Total stocks** | **52.0** | 36.8 |

The Company holds no stocks (2001: nil).

# Notes to the accounts

## 15 Debtors

| | Group 2002 £m | Group 2001 £m | Company 2002 £m | Company 2001 £m |
|---|---|---|---|---|
| **Operating debtors** | | | | |
| **- falling due within one year** | | | | |
| Trade debtors | **60.7** | 40.3 | **-** | - |
| Amounts owed by Group undertakings | **-** | - | **279.1** | 580.2 |
| Amounts owed by associated undertakings | **0.1** | - | **-** | - |
| Other debtors | **4.0** | 3.1 | **0.6** | 0.9 |
| Prepayments and accrued income | **6.2** | 3.5 | **-** | - |
| **Total falling due within one year** | **71.0** | 46.9 | **279.7** | 581.1 |
| **Operating debtors** | | | | |
| **- falling due after one year** | | | | |
| Other debtors | **0.3** | 0.1 | **-** | - |
| Pension prepayment | **20.9** | 13.5 | **4.9** | 4.8 |
| **Total operating debtors** | **92.2** | 60.5 | **284.6** | 585.9 |
| **Corporation tax recoverable falling due within one year** | **0.9** | 0.2 | **3.7** | 4.9 |
| **Total debtors** | **93.1** | 60.7 | **288.3** | 590.8 |

## 16 Creditors

| | Group 2002 £m | Group 2001 £m | Company 2002 £m | Company 2001 £m |
|---|---|---|---|---|
| **Amounts falling due within one year** | | | | |
| **Operating creditors** | | | | |
| Trade creditors | **51.7** | 35.9 | **-** | - |
| Amounts owed to Group undertakings | **-** | - | **212.2** | 288.4 |
| Amounts owed to associated undertakings | **0.5** | - | **-** | - |
| Social security | **3.6** | 2.0 | **-** | - |
| Accruals and deferred income | **17.6** | 8.4 | **0.1** | 0.4 |
| Other creditors | **16.2** | 12.7 | **0.8** | 0.9 |
| **Total operating creditors** | **89.6** | 59.0 | **213.1** | 289.7 |
| **Tax and dividends payable** | | | | |
| Corporation tax | **2.2** | 6.8 | **-** | - |
| Dividends payable | **5.3** | 4.2 | **5.3** | 4.2 |
| **Total tax and dividends payable** | **7.5** | 11.0 | **5.3** | 4.2 |
| **Amounts falling due after more than one year** | | | | |
| Other creditors (note 20) | **2.4** | - | **-** | - |
| **Total amounts falling due after more than one year** | **2.4** | - | **-** | - |

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# Notes to the accounts

## 17 Borrowings

| | Group | | Company | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | **£m** | £m | **£m** | £m |
| Floating Rate Loan Notes | **2.6** | 32.4 | **2.6** | 18.5 |
| Finance leases | **0.1** | 0.1 | **-** | - |
| Other borrowings | **19.8** | 0.2 | **19.3** | - |
| **Total falling due within one year** | **22.5** | 32.7 | **21.9** | 18.5 |
| Finance leases | **0.1** | 0.1 | **-** | - |
| Other borrowings | **0.7** | 8.5 | **-** | 8.4 |
| **Total falling due after one year** | **0.8** | 8.6 | **-** | 8.4 |
| Total borrowings | **23.3** | 41.3 | **21.9** | 26.9 |
| Cash at bank and in hand | **(78.8)** | (157.4) | **(61.3)** | (145.1) |
| **Total net cash** | **(55.5)** | (116.1) | **(39.4)** | (118.2) |
| Secured – finance leases | **0.2** | 0.2 | **-** | - |
| Unsecured | **23.1** | 41.1 | **21.9** | 26.9 |
| **Total borrowings** | **23.3** | 41.3 | **21.9** | 26.9 |

Included in Floating Rate Loan Notes are outstanding convertible loan notes in respect of 2001 acquisitions of £0.9m (2001: £5.8m).

## 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 2002.

- **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 investments 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 2002, the Euro and US dollar liabilities represented 26.8% of Euro net assets and 4.3% of US dollar net assets respectively.

- **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 2002, and a large proportion of 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 £23.3m (2001: £41.3m) included in note 17, the provision for vacant leasehold properties of £1.0m (2001: £1.5m) included in note 19 and deferred consideration payable in respect of the Domain acquisition.

| **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** |

| 2001 | Floating rate £m | Non interest bearing £m | Total £m |
|---|---|---|---|
| Currency | | | |
| Sterling | 32.7 | 1.5 | 34.2 |
| US dollar | 8.5 | – | 8.5 |
| Other currencies | 0.1 | – | 0.1 |
| At 31st December | 41.3 | 1.5 | 42.8 |

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 4 years (2001: 4 years).

The following table analyses the currency rate exposure of the Group's financial assets, comprising cash at bank and in hand of £78.8m (2001: £157.4m).

| **Currency** | **2002 £m** | 2001 £m |
|---|---|---|
| Sterling | **68.5** | 155.1 |
| Euros | **5.1** | 0.9 |
| US dollar | **4.5** | 0.7 |
| Other currencies | **0.7** | 0.7 |
| **At 31st December** | **78.8** | 157.4 |

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 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 |
|---|---|---|---|---|---|
| **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** |

| | Group | | | | Company |
|---|---|---|---|---|---|
| 2001 | Borrowings £m | Finance leases £m | Other financial liabilities £m | Total £m | Total £m |
| Within 1 year or on demand | 32.6 | 0.1 | 0.2 | 32.9 | 18.5 |
| Between 1 and 2 years | 8.5 | 0.1 | 0.2 | 8.8 | 8.4 |
| Between 2 and 5 years | – | – | 0.9 | 0.9 | – |
| Over 5 years | – | – | 0.2 | 0.2 | – |
| At 31st December | 41.1 | 0.2 | 1.5 | 42.8 | 26.9 |

### c) Borrowing facilities

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

| | **2002 £m** | 2001 £m |
|---|---|---|
| Expiring within 1 year | **5.7** | – |
| Expiring between 1 and 2 years | **–** | 16.6 |
| **Total undrawn committed facilities** | **5.7** | 16.6 |

The Group also has uncommitted facilities totalling £33.6m (2001: £68.4m).

| **d) Fair values of financial assets and liabilities** | **2002** | | 2001 | |
|---|---|---|---|---|
| | **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 | **(22.5)** | **(22.5)** | (32.7) | (32.7) |
| Long term borrowings | **(0.8)** | **(0.8)** | (8.6) | (8.6) |
| Other financial liabilities | **(1.0)** | **(1.0)** | (1.5) | (1.5) |
| Cash at bank and in hand | **78.8** | **78.8** | 157.4 | 157.4 |

As noted on page 43 the Group's borrowings are primarily floating rate loans and their book value is deemed to approximate to their fair values. As the majority of the borrowings mature within one year, 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, which was not materially different from the book value (2001: not materially different).

# Notes to the accounts

## 18 Financial instruments (continued)

**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.

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

| 2001 | Net foreign currency financial assets / (liabilities) | | | | |
|---|---|---|---|---|---|
| | Sterling £m | Eurozone £m | US £m | Other currencies £m | Total £m |
| Functional currency of Group operation | | | | | |
| Sterling | – | (0.6) | (0.1) | 0.1 | (0.6) |

**f) Hedges on future transactions**

As explained on page 42, 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 2002 there were no interest rate swaps outstanding (2001: nil) and no material unrecognised net gains or losses in respect of forward foreign exchange contracts (2001: nil).

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# 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 | 5.6 | 0.1 | 1.6 | 1.6 | 22.6 | **31.5** |
| Exchange adjustment | 0.1 | – | – | 0.1 | (0.1) | **0.1** |
| Acquisitions | (3.1) | 1.6 | 1.0 | 0.2 | 0.3 | **–** |
| Utilised in year | 1.6 | – | (0.5) | (5.6) | (2.0) | **(6.5)** |
| Charge / (credit) in the year | 3.2 | – | 0.3 | 5.3 | (0.6) | **8.2** |
| **At 31st December** | **7.4** | **1.7** | **2.4** | **1.6** | **20.2** | **33.3** |

| Company | Deferred tax £m | Other £m | Total £m |
|---|---|---|---|
| At 1st January | 1.4 | 16.7 | **18.1** |
| Utilised in the year | – | (1.7) | **(1.7)** |
| Credit in the year | – | (0.1) | **(0.1)** |
| **At 31st December** | **1.4** | **14.9** | **16.3** |

| Deferred tax | 2002 | | 2001 | |
|---|---|---|---|---|
| | **Group** | **Company** | Group | Company |
| | **£m** | **£m** | £m | £m |
| Timing differences between tax allowances and depreciation | **2.5** | **–** | 1.7 | – |
| Other timing differences | **4.9** | **1.4** | 3.9 | 1.4 |
| **Total deferred tax** | **7.4** | **1.4** | 5.6 | 1.4 |

### Pensions and employee benefits

Pensions and employee benefits include £1.7m (2001: £0.1m) 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).

The charge includes £5.2m which relates to a provision made for costs and losses associated with the disposal of the Leisure and Flavel cooker and fire brands which was utilised in the year.

### 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, taxation exposures and other claims and other costs from third parties in relation to divested businesses. Although the majority of these provisions should be realised in the next accounting period, the exact timing is unclear.

# Notes to the accounts

## 20 Share capital

| | 2002 £m | 2001 £m |
|---|---|---|
| **Authorised** | | |
| 327.0m ordinary shares of 25p each (2001: 327.0m) | **81.8** | 81.8 |
| **Issued and fully paid** | | |
| 129.4m ordinary shares of 25p each (2001: 127.8m) | **32.3** | 31.9 |

During the year 444,604 ordinary shares of 25p each (nominal value £111,151) (2001: 1,186,495 shares, nominal value £296,624) were issued in connection with the Company's share option schemes for an aggregate consideration of £988,870 (2001: £2,621,137).

On 5th July 2002 816,027 ordinary shares of 25p each (nominal value £204,007) were issued on the redemption of certain Fired Earth loan notes issued on acquisition in the prior year.

Ordinary shares of 25p each, totalling 297,832 (nominal value £74,458) were issued under the Long-Term Incentive Plan during the year.

### Options

Options outstanding at 31st December 2002 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 |
| | 375,000 | 288 | April 2007 | 175,693 | 199 | May 2003 |
| | 175,000 | 321 | May 2008 | 361,168 | 199 | May 2005 |
| | 987,199 | 225 | September 2009 | | | |
| | 1,048,500 | 236 | June 2011 | | | |
| | 891,000 | 261 | March 2012 | | | |
| **Total** | **3,476,699** | | | **536,861** | | |

Additionally under the Long-Term Incentive Plan, options were granted and were outstanding at the year end for 346,640 shares. These are exercisable in the 7 years to June 2012. 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 19 to 22.

As part of the acquisition of Domain Inc, during the year (note 23), the officers have an option to receive 1,179,834 shares in Aga Foodservice Group plc in lieu of the deferred cash payment of £2.4m, which is 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 £0.9m remain outstanding and £0.5m of fixed rate Convertible Redeemable Unsecured Loan Stock 2007 ('CRULS') were issued by the Group as part of the consideration, which are 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.

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# 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 | 56.7 | 5.8 | 35.0 | 129.0 | **226.5** |
| Exchange adjustment | – | – | – | (3.3) | **(3.3)** |
| Profit retained | – | – | – | 11.7 | **11.7** |
| Premium on shares issued | 3.2 | – | – | – | **3.2** |
| Transfer between reserves | – | (2.8) | – | 2.8 | **-** |
| Other movement | – | – | – | 0.2 | **0.2** |
| **At 31st December** | **59.9** | **3.0** | **35.0** | **140.4** | **238.3** |

| Company | Share premium £m | Revaluation reserve £m | Capital redemption reserve £m | Profit and loss account £m | Total £m |
|---|---|---|---|---|---|
| At 1st January | 56.7 | – | 35.0 | 416.4 | **508.1** |
| Premium on shares issued | 3.2 | – | – | – | **3.2** |
| Other movement | – | – | – | 0.3 | **0.3** |
| Profit retained | – | – | – | 15.8 | **15.8** |
| **At 31st December** | **59.9** | **-** | **35.0** | **432.5** | **527.4** |

The cumulative amount of goodwill taken direct to reserves since 1985 in respect of businesses that were members of the Group at 31st December 2002 is £6.3m (2001: £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 gains on foreign currency borrowings of £0.7m (2001: £1.4m) have been taken to reserves. The Company's profit and loss account reserves of £432.5m (2001: £416.4m) include approximately £292m (2001: £292m) which is unavailable for distribution.

## 22 Minority interests

| | **2002 £m** | 2001 £m |
|---|---|---|
| At 1st January | **0.4** | 1.3 |
| Exchange adjustment | **(0.1)** | 0.1 |
| Disposed of in year | **-** | (1.1) |
| Profit and loss account | **0.1** | 0.1 |
| **At 31st December** | **0.4** | 0.4 |

## 23 Acquisitions and disposals

**a) Acquisitions**

The principal acquisitions during the year were Domain Inc, Belshaw Bros Inc and the Bongard Group of companies as shown below:

# Notes to the accounts

## 23 Acquisitions and disposals (continued)

| Aggregated net assets acquired | Domain Book Value £m | Domain Fair value adjustment £m | Domain Provisional fair value £m | Belshaw Book Value £m | Belshaw Fair value adjustment £m | Belshaw Provisional fair value £m | Bongard Book Value £m | Bongard Fair value adjustment £m | Bongard Provisional fair value £m | Other Provisional fair value £m | Total Provisional fair value £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Intangible fixed assets | – | – | – | – | – | – | 5.4 | (5.4) | – | – | – |
| Tangible fixed assets | 3.6 | – | **3.6** | 2.1 | – | **2.1** | 4.6 | – | **4.6** | **1.0** | **11.3** |
| Stocks | 7.5 | – | **7.5** | 2.0 | (0.2) | **1.8** | 7.1 | – | **7.1** | – | **16.4** |
| Debtors | 0.6 | – | **0.6** | 1.1 | (0.1) | **1.0** | 14.4 | – | **14.4** | **1.2** | **17.2** |
| Cash at bank and in hand | 7.6 | – | **7.6** | – | – | – | 2.1 | – | **2.1** | – | **9.7** |
| Other creditors | (11.9) | – | **(11.9)** | (0.9) | (0.1) | **(1.0)** | (12.7) | (0.3) | **(13.0)** | **(0.8)** | **(26.7)** |
| Tax | – | – | – | – | – | – | 0.2 | – | **0.2** | – | **0.2** |
| Borrowings acquired | (0.3) | – | **(0.3)** | – | – | – | (24.3) | – | **(24.3)** | – | **(24.6)** |
| Provisions | – | 2.8 | **2.8** | (0.2) | – | **(0.2)** | (2.1) | (0.2) | **(2.3)** | **(0.3)** | – |
| **Net assets acquired** | 7.1 | 2.8 | **9.9** | 4.1 | (0.4) | **3.7** | (5.3) | (5.9) | **(11.2)** | **1.1** | **3.5** |
| Cash paid | | | **17.9** | | | **17.0** | | | **13.1** | **2.2** | **50.2** |
| Deferred consideration | | | **3.0** | | | – | | | **0.8** | – | **3.8** |
| Loan notes cancelled | | | – | | | – | | | – | **(0.3)** | **(0.3)** |
| **Total consideration** | | | **20.9** | | | **17.0** | | | **13.9** | **1.9** | **53.7** |
| Goodwill arising on acquisitions in the year | | | **11.0** | | | **13.3** | | | **25.1** | – | **49.4** |
| Goodwill arising in respect of prior year acquisitions | | | – | | | – | | | – | **0.8** | **0.8** |
| **Total goodwill arising (note 11)** | | | **11.0** | | | **13.3** | | | **25.1** | **0.8** | **50.2** |

The fair value adjustments include accounting policy alignments on Bongard of £5.4m and Domain of £1.8m relating to bringing the acquisitions in line with the Group's policies on intangible assets and deferred tax. All further adjustments are of a revaluation nature. Revaluation adjustments to stocks and debtors reflect knowledge gained as to the recoverability of these items following acquisition.

Adjustments to creditors and provisions relate to certain re-statements of accruals and the provision for certain liabilities not included in the acquired balance sheets. The fair value adjustments contain some provisional amounts that will be finalised in the 2003 financial statements when the detailed acquisition investigation has been completed.

The provisional fair value of Other acquisitions shown above includes the book value of fixed assets and debtors acquired of £1.0m and £1.2m respectively. Other fair value adjustments are of a revaluation nature and relate to prior year acquisitions. Of the £0.3m adjustment to provisions £0.5m relates to warranty liabilities and £0.2m relates to a deferred tax asset, both on Adamatic. The £0.8m adjustment to other creditors is in respect of additional pre-acquisition accruals relating to Adamatic.

Domain, Inc was acquired in March. Its previous accounting period was the 12 months to 30th June 2001, the profit after taxation and minority interests for this period was £2.0m; and from the end of the previous accounting period to acquisition date it was £0.6m, due to seasonal trading.

Belshaw Bros., Inc was acquired in April. Its previous accounting period was the 12 months to 30th September 2001, the profit after taxation, minority interests and inter-group interest from its previous parent company for this period was £0.4m and from the end of the previous accounting period to acquisition date it was a loss of £0.3m.

The Bongard Group was acquired in October. Its previous accounting period was the 18 months to 31st December 2001, the loss after taxation and minority interests for this period was £0.3m and from the end of the previous accounting period to acquisition date it was a loss of £1.4m. These results are after inter-company charges from its previous parent company, restructuring costs and goodwill. The restructuring cost from the end of the previous accounting period to acquisition date was £0.9m.

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# Notes to the accounts

## a23 Acquisitions and disposals (continued)

**b) Disposals**

The principal disposal in the year was that of the Leisure and Flavel brands on 5th April. Details of disposals are set out below:

| | 2002 £m |
|---|---|
| **Net assets disposed** | |
| Stock | **(0.3)** |
| **Total assets transferred with disposal** | **(0.3)** |
| Proceeds received less costs incurred | **5.1** |
| | **4.8** |
| Termination costs of discontinued operations | **(4.8)** |
| **Profit on disposal of discontinued operations** | **–** |

The termination costs include redundancies and transitional losses on sales to the purchaser in the period following disposal.

**c) Net cash flow on acquisitions and disposals**

| | 2002 £m | 2001 £m |
|---|---|---|
| **Current year acquisitions** | | |
| Cash paid for subsidiaries | **(50.2)** | (12.7) |
| Cash paid for associates (note 13) | **(2.8)** | – |
| Cash acquired | **9.7** | 3.3 |
| Net acquisitions outflow | **(43.3)** | (9.4) |
| **Current year disposals** | | |
| Initial consideration | **5.3** | 786.0 |
| Less costs incurred net of further proceeds received | **(5.3)** | 44.6 |
| Net cash disposed | **–** | (12.2) |
| **Net cash flow** | **(43.3)** | 809.0 |

**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 inflow of £5.6m being cash inflow from operations of £6.9m and cash outflow for capital expenditure and financial investment of £1.2m and tax paid of £0.1m.

The effect on the Group cash flow from businesses now classified as discontinued was nil in total (2001: £0.6m).

## 24 Financing

| | Notes | 2002 £m | 2002 £m | 2001 £m | 2001 £m |
|---|---|---|---|---|---|
| Issue of ordinary share capital | | | **3.8** | | 34.8 |
| Buyback of ordinary capital | | | **–** | | (336.3) |
| New bank borrowing | | **13.1** | | – | |
| Decrease in borrowings not repayable on demand | | **(54.3)** | | (321.2) | |
| Finance lease repayments | 25 | **(0.3)** | | (0.3) | |
| Decrease in debt | | | **(41.5)** | | (321.5) |
| **Movement in financing** | | | **(37.7)** | | (623.0) |

# Notes to the accounts

## 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) | 157.4 | (78.5) | – | (0.1) | **78.8** |
| Other borrowings | (41.1) | 41.2 | (24.0) | 0.8 | **(23.1)** |
| Finance lease obligations | (0.2) | 0.3 | (0.3) | – | **(0.2)** |
| **Total net cash** | **116.1** | **(37.0)** | **(24.3)** | **0.7** | **55.5** |

## 26 Commitments

| | 2002 £m | 2001 £m |
|---|---|---|
| **Capital commitments contracted for by the Group but not provided for in the accounts** | **1.6** | 1.4 |

The Company had no capital commitments (2001: nil).

## 27 Operating lease commitments

| | Land & buildings | | Other operating leases | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| For leases expiring: | £m | £m | £m | £m |
| - within 1 year | **0.5** | 0.5 | **0.9** | 0.5 |
| - between 1 and 2 years | **0.8** | – | **0.8** | 0.4 |
| - between 2 and 5 years | **2.0** | 0.2 | **2.1** | 2.1 |
| - after more than 5 years | **5.2** | 1.6 | **-** | – |
| **Total operating lease commitments** | **8.5** | 2.3 | **3.8** | 3.0 |

The Company had no operating lease commitments (2001: nil).

## 28 Contingent liabilities

The Group had no contingent liabilities arising in the normal course of business at 31st December 2002 (2001: 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 2002 was £0.2m (2001: £0.2m).

# Notes to the accounts

## 30 Trading subsidiaries

The following is a list of the Company's principal trading subsidiaries at 31st December 2002. A brief description of 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)

Victory Refrigeration LLC (USA)

Williams Refrigeration Limited (Australia) ◆

**Other principal businesses:**

Elgin & Hall Limited

Fired Earth Limited

Millers Bakery Machinery (Bury) 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 25 to 52 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 2002 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

21st March 2003

# Five year financial history

| Trading results | | **2002 £m** | 2001 £m | 2000 £m | 1999 £m | 1998 £m |
|---|---|---|---|---|---|---|
| **Turnover** | | **330.3** | 370.3 | 969.1 | 878.3 | 1,015.4 |
| Operating profit before disposal of businesses and goodwill amortisation | | **30.3** | 25.7 | 101.5 | 81.0 | 81.0 |
| Goodwill amortisation | | **(6.5)** | (6.6) | (15.1) | (9.7) | (2.1) |
| Net interest receivable / (payable) | | **3.2** | 5.6 | (19.6) | (9.2) | (3.6) |
| Profit before disposal of businesses | | **27.0** | 24.7 | 66.8 | 62.1 | 75.3 |
| Disposal of businesses | | **–** | – | (36.0) | 32.5 | (38.9) |
| **Profit before tax** | | **27.0** | 24.7 | 30.8 | 94.6 | 36.4 |
| Tax | | | | | | |
| - before disposal of businesses | | **(7.4)** | (7.9) | (23.8) | (17.8) | (23.9) |
| - disposal of businesses | | **–** | – | 1.7 | (1.0) | (3.6) |
| **Profit after tax** | | **19.6** | 16.8 | 8.7 | 75.8 | 8.9 |
| **Balance sheet summary** | | | | | | |
| **Net operating assets** | | | | | | |
| Fixed assets | | **62.2** | 49.0 | 288.2 | 273.3 | 267.3 |
| Stocks | | **52.0** | 36.8 | 194.4 | 166.6 | 163.6 |
| Operating debtors less creditors and provisions | | **(25.7)** | (24.4) | (53.2) | (24.2) | (52.6) |
| Businesses held with a view to resale | | **–** | – | – | – | 17.7 |
| **Total net operating assets before goodwill** | | **88.5** | 61.4 | 429.4 | 415.7 | 396.0 |
| Goodwill | | **138.2** | 97.7 | 275.8 | 272.6 | 130.7 |
| **Total net operating assets** | | **226.7** | 159.1 | 705.2 | 688.3 | 526.7 |
| Investments | | **2.8** | – | – | – | – |
| Tax and dividends | | **(14.0)** | (16.4) | (24.2) | (22.4) | (33.7) |
| Total net cash / (borrowings) | | **55.5** | 116.1 | (304.3) | (273.9) | (158.5) |
| **Total net assets employed** | | **271.0** | 258.8 | 376.7 | 392.0 | 334.5 |
| **Financed by** | | | | | | |
| Ordinary shares | | **32.3** | 31.9 | 60.6 | 60.6 | 60.6 |
| Reserves | | **238.3** | 226.5 | 314.8 | 330.0 | 263.7 |
| **Ordinary share capital and reserves** | | **270.6** | 258.4 | 375.4 | 390.6 | 324.3 |
| Preference shares | | **–** | – | – | – | 1.3 |
| **Total shareholders' funds** | | **270.6** | 258.4 | 375.4 | 390.6 | 325.6 |
| Minority interests | | **0.4** | 0.4 | 1.3 | 1.4 | 8.9 |
| **Total funds** | | **271.0** | 258.8 | 376.7 | 392.0 | 334.5 |
| **Statistics** | | | | | | |
| Operating profit before disposal of businesses and goodwill amortisation to turnover | % | **9.2** | 6.9 | 10.5 | 9.2 | 8.0 |
| Interest cover before disposal of businesses | x | **–** | – | 4.4 | 7.8 | 21.9 |
| Dividend per ordinary share | p | **6.0** | 5.0 | 13.2 | 13.2 | 13.2 |
| **Earnings per share** | | | | | | |
| Basic | p | **15.2** | 9.5 | 3.5 | 31.0 | 3.3 |
| Diluted | p | **15.1** | 9.5 | 4.1 | 30.5 | 3.3 |
| Basic - before disposal of businesses and goodwill amortisation | p | **20.2** | 13.0 | 22.6 | 22.0 | 21.5 |

# Notice of Annual General Meeting

Notice is hereby given that the sixty second Annual General Meeting of Aga Foodservice Group plc will be held in The Britannia Suite, The National Motorcycle Museum, Coventry Road, Bickenhill, Solihull B92 0EJ on 8th May 2003 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 2002.
2. To declare a final dividend.
3. To re-elect V Cocker as a director.
4. To re-elect S Rennie as a director.
5. To re-elect C J Farrow as a director.
6. To re-elect J D Lovering as a director.
7. To re-elect H M Mahy as a director.
8. To receive and adopt the directors' remuneration report for the year ended 31st December 2002.
9. To re-appoint the auditors, PricewaterhouseCoopers LLP, (having previously been appointed by the board to fill the casual vacancy arising by reason of the resignation of PricewaterhouseCoopers), to hold office until conclusion of the next general meeting at which accounts are laid before the Company and to authorise the directors to determine the auditors' remuneration.
10. 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 annual general meeting of the Company following the passing of this resolution and for that period the 'section 80 amount' is £10,783,229.
11. Subject to the passing of the foregoing resolution no. 10, 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 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 annual general meeting of the Company following the passing of this resolution and for that period the 'section 89 amount' is £1,617,484.

## Special business:

12. 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 12,939,875 (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 annual general meeting 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.

Shaun Smith

By order of the board
S M Smith
Secretary
Solihull
4th April 2003

# Notice of Annual General Meeting

## 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 Uncertified 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 6th May 2003 shall be entitled to attend the annual general meeting 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 10 to 12 (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'.

# Main addresses & advisers and 2003 financial calendar

## 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

## 2003 financial calendar

| | |
|---|---|
| Record date for final ordinary dividend | 2nd May |
| Annual General Meeting | 8th May |
| Final ordinary dividend payable | 6th June |
| Record date for interim ordinary dividend | 7th November |
| Interim ordinary dividend payable | 3rd December |

TCF

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