CRANSWICK *plc*

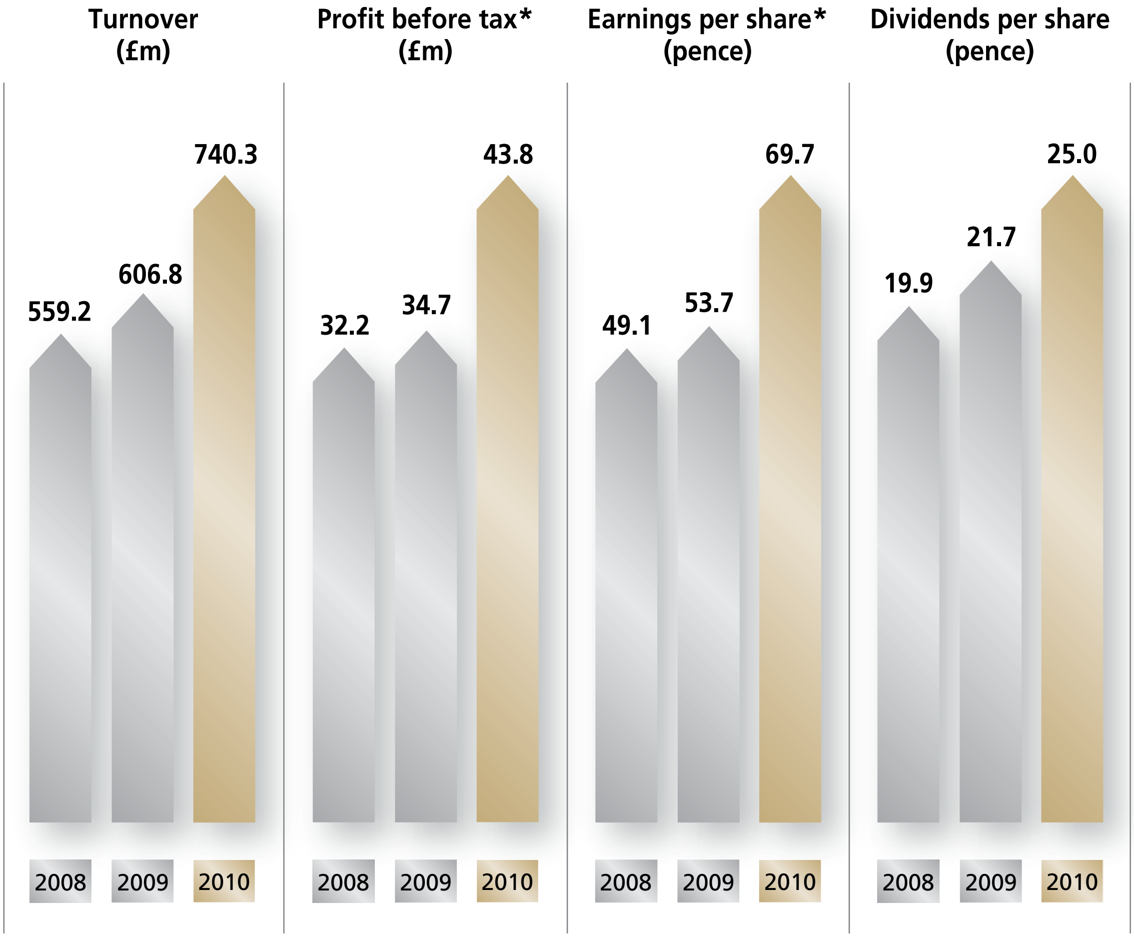
# REPORT & ACCOUNTS

YEAR ENDED 31 MARCH 2010

quality products, outstanding performance

**Cranswick** was formed in the 1970's by farmers in East Yorkshire to produce animal feed. The Company went on to the Stock Market in 1985 and since that time has evolved into a business that is highly focused on the food sector. Activities include the supply of fresh pork, gourmet sausages, charcuterie, cooked meats, sandwiches and traditional dry cured bacon.

# FINANCIAL HIGHLIGHTS




- Turnover from continuing operations up 22 per cent to **£740m**
- Profit before tax from continuing operations up 26 per cent at **£43.8m**
- Increase of 30 per cent in earnings per share from continuing operations to **69.7p***
- Dividend up 15 per cent to **25.0p** per share

*Before exceptional items.

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CRANSWICK plc

# CHAIRMAN'S STATEMENT

I am pleased to report to Shareholders that during the past year the Company has continued to progress and has further established its presence in the UK food sector. There was a very strong increase in turnover and the Company's strategy to focus on food production was evidenced by the sale of the pet business and the acquisition of the pork processing activities of Bowes of Norfolk ('CCF Norfolk'). Shareholders were notified of these transactions previously. In addition there has again been significant investment in the Group's asset base to enable the organic growth of the business to be maintained.

## Results

Sales for the year increased to £740 million, a rise of 22 per cent compared to the previous year. Organic growth represented 11 per cent of the increase and CCF Norfolk contributed 11 per cent. There were very strong increases in certain product categories. Sales of cooked meats rose by 13 per cent, sausages by 23 per cent and bacon by 61 per cent which substantiates the decision to invest significantly in these categories in recent years. There are plans for investment in certain areas and, in addition, the coming year will see completion of the investment project at the fresh pork facility in Hull. The provision of a high quality fixed asset base to meet the organic growth aspirations of the business in the most efficient way possible is a key strategic priority for the Board.

The operating margin in the underlying business was comparable to that achieved in the previous year which is pleasing given the continued raw material cost inflation during the first six months. Significant inflation was experienced in the prior year, continued into this year and peaked in the summer. Prices then came back and more recently there have been modest increases leaving prices slightly below the peak of last summer. Strong growth in sales and maintained operating margin along with lower financing costs, resulting from the strong cash flow of the business and lower interest rates, contributed to an increase in profit before taxation of 26 per cent to £43.8 million. Earnings per share rose 30 per cent to 69.7p per share from 53.7p previously. The strong cash flow resulted in a reduction in net debt from £66.6 million a year ago to £54.7 million at the end of March. The borrowings of the business are conservatively structured and interest was covered 21 times compared to 10 times a year ago. There is further information on trading and finance in the Reviews by the Chief Executive and Finance Director which follow.

## Dividend

The Board is proposing an increase in the final dividend of 15.6 per cent to 17.0p per ordinary share. Along with the interim dividend of 8.0p per ordinary share paid in January 2010 this makes a total for the year of 25.0p per ordinary share an increase of 15.2 per cent on last year's 21.7p. The final dividend, if approved by Shareholders, will be paid on 3 September 2010 to Shareholders on the register at the close of business on 2 July 2010. Shares will go ex-dividend on 30 June 2010. Shareholders will again have the option to receive the dividend by way of scrip issue.

## Richard Marginson

It is with sadness that I report to Shareholders the death during the year of Richard Marginson. Richard was one of the original 23 Shareholders, a founder Director of the Company and the first Chairman. He made an enormous contribution to the development of the business in those early days and served as Chairman until retiring from the Board in 1991. On behalf of all at Cranswick we extend our sympathy to Richard's wife Gladys and family.

## Board

Steven Esom was appointed as a Non Executive Director during the second half of the year. Steven has a wealth of experience within the food sector including twelve years at Waitrose where he was Managing Director and at Marks & Spencer where he was Executive Director of Food.

## Staff

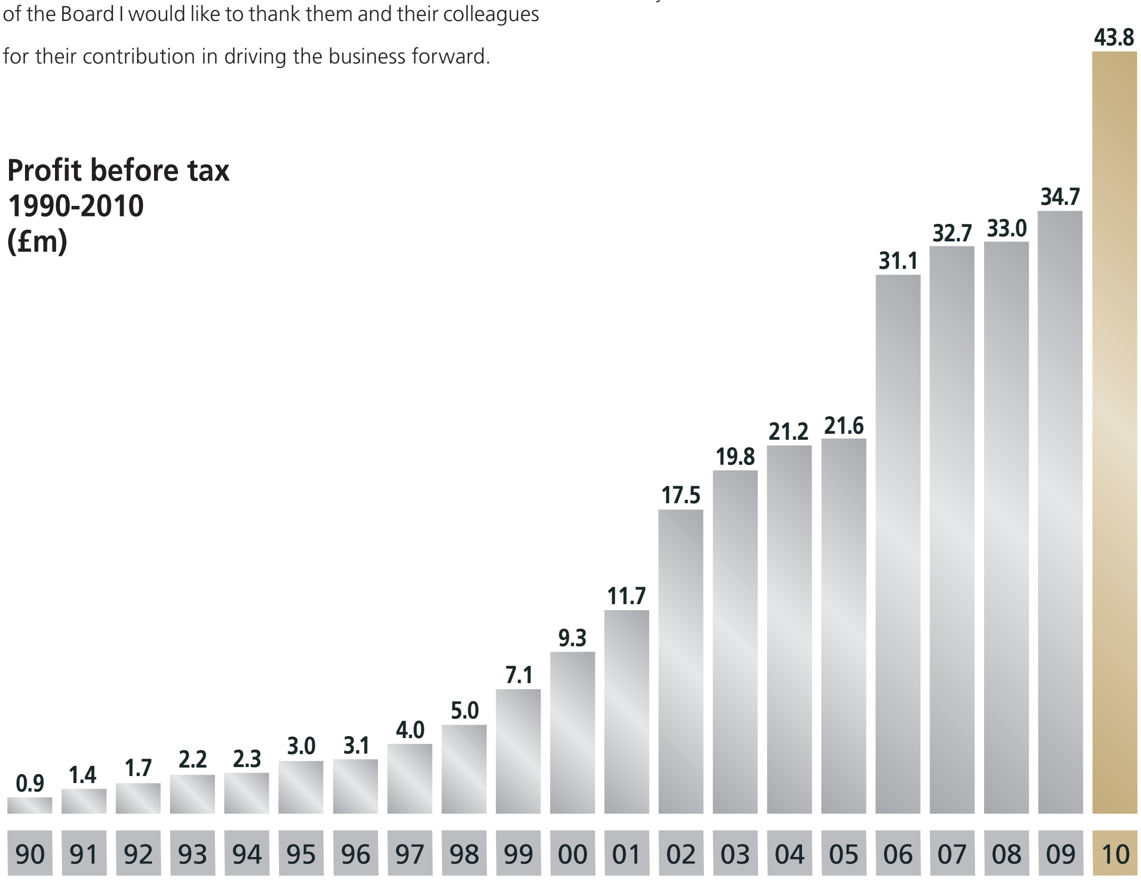
Cranswick is operated on a decentralised basis with a number of product categories each with its own management team. The continued successful growth of the Company is a reflection of their expertise and commitment and on behalf of the Board I would like to thank them and their colleagues for their contribution in driving the business forward.

## Outlook

The Company is well positioned to meet the increasing demand for UK pork products. The business has developed significant expertise in the supply chain, building on its origins in pig feed production and the rearing of pigs, and through acquisitions, joint ventures and organic initiatives it now has market leading positions in a number of categories. The past year has seen increased expenditure by the consumer on products such as air-dried bacon, premium sausages, fresh pork and ham and this looks set to continue as the value and versatility of pork, the 'alternative white meat', are increasingly appreciated. With experienced management throughout the Group and a well invested asset base the Board is confident in the successful long term development of the business and is encouraged by the positive start made in the current financial year.

**Martin Davey**
**Chairman**

24 May 2010



# REVIEW OF ACTIVITIES

## BY THE CHIEF EXECUTIVE, BERNARD HOGGARTH

It is very satisfying to report continued growth in sales. Total external sales increased by 22 per cent to £740 million. Underlying sales grew by 11 per cent after stripping out the contribution from the CCF Norfolk fresh pork business which was acquired during the year. Internal sales within the Group also grew strongly to £123 million. Internal sales are generated by the supply to the further processing sites of primal fresh pork for conversion into sausages and air-dried bacon, and fresh pork legs to be cured, cooked and processed into ham products.

During the second half of the year the pig price and the price of most other proteins eased from the highs seen earlier in the year. However, prices are now firming again and with demand from the major UK grocery retailers for British pork products increasing, the requirement for British pig meat is expected to remain strong. The continued price competitiveness of pork against the other major proteins including beef and lamb should also ensure that demand for pork remains strong and that prices remain relatively firm. The continuing volatility of sterling against the euro will be one of the major factors in the competitiveness of imported pig meat going forward.

During the year the Board has approved several large capital projects to ensure that the Group continues to have sufficient headroom in production capacity to facilitate future growth. It is vital that the Company remains at the forefront of the sector with some of the best invested and efficient plants in the UK pork industry, so maintaining the Group's competitive edge going forward.

One such project is the planned investment to expand the air-dried bacon facility at Sherburn. The factory, which was commissioned just over two years ago, is already hitting capacity during peaks in seasonal demand. Investment in the latest generation of high speed slicers, together with doubling of throughput by the commissioning of the second adjacent unit, will ensure the business is well placed to meet growing demand.

Air-dried bacon has created a new premium category in the market. This is still a developing and immature category and new business wins coupled with growth of existing accounts, saw sales increase by 61 per cent in the year.

The extension of the Lazenby's sausage factory in Hull on land purchased adjacent to the existing site is nearing completion. Sales have grown strongly over the five years since the new factory was completed, and during the year grew by a further 23 per cent. The extension which includes new despatch facilities is essential to meet peak volume requirements during the barbecue season and at Christmas. The new extended facility will provide a maximum weekly capacity of 700 tonnes, an increase of 50 per cent. Licensed brands including 'The Black Farmer' and 'Weight Watchers' have continued to grow strongly, helped by increased listings. It is pleasing to see that even in the current economic climate many consumers are continuing to trade up in the sausage category, looking for high meat content products with good flavour profiles and provenance. These are products which are trusted to provide a quality, simple, home meal solution, either for a family meal, or a special dining-in occasion. Trading up and buying the best products for home consumption still appears to be a consideration for many families as they cut back on expenditure and dining out occasions become less frequent. This is not to say that 'red label' shoppers are any less active; they are still price focused and are quite prepared to switch between retailers to find the best value deals.

The largest project the Group has undertaken to date is the redevelopment of the primary pork processing facility at the Preston site near Hull. When completed later this year, it will lift production capacity at the site by 50 per cent. This is an essential development for several reasons. The plant is situated in the middle of the largest pig rearing area in the UK and with other factories in the region now processing fewer animals than previously, the Preston site will be providing a first class local service to the area's pig farming community. This also helps to reduce 'food miles' which is a high priority for the industry. This, together with the growing requirement for British pork, as mentioned earlier, meant it was imperative that the business was able to satisfy the increasing demand from retail customers and also ensure the shortest journeys for contracted livestock. The continued development of specialist pig breeds for premium lines has helped the business become the lead supplier of fresh pork to the Group's largest customer. In tandem with the investment at Preston the Norfolk facility is also being upgraded. Investment to date has again seen production capacity increased by 50 per cent. Specialist boning lines have been added to simplify the butchery process and increase efficiency and productivity. Management has been strengthened and it is pleasing to report the good progress being made in integrating the Norfolk site with the Group's existing fresh pork operations.

Cooked meat sales were strong with growth of 13 per cent. With sales to most of the multiple retailers it is vital that new product development, which is essential in building new accounts, is of the highest standard. This programme includes the development of an integrated supply chain by entering into longer term supply agreements with certain key pig producers which gives them security to develop with Cranswick. The supply of specific standards of British pork legs including 'Freedom Foods' and 'Outdoor Reared' is of increasing importance to the Group's customers. This, coupled with work on the incorporation of certain rare breeds into breeding programmes, forms part of the ongoing research into eating quality.

The sandwich category had a successful year and whilst sales were down 1 per cent for the year as a whole, they recovered strongly and were ahead of the prior year for the second half, with profitability also much improved. Sales to airline operators continued to grow, benefitting from some global agreements and contracts. Frozen solutions for retail and foodservice customers now account for more than 5 per cent of sales with a range of frozen sandwich platters launched with a retail customer at Christmas. Licensee agreements with the 'Chicago Town Pizza' and 'Reggae, Reggae' brands will help drive sales going forward. The sandwich filling category is very much a focus too and recently there have been business wins in the convenience sector with the new fillings range. The trading environment now looks much healthier, with longer term contracts secured and new accounts growing strongly.

Continental products performed well during the year with sales up 8 per cent. 'Round pound' deals with retailer customers using the 'Premier Deli' brand drove sales exceptionally well throughout the year. There have been other notable successes during the year too, including sales of fresh olives and antipasti. Following investment in a new production area and specialist equipment at the Guinness Circle site in Manchester, olive sales grew by over 50 per cent. The business is now able to produce mixed packs and marinated products. The choice and availability of Mediterranean products is exceptional at a time when the consumer's interest in this style of food is so high. New retail customers have been brought on board and business with existing customers has been increased through the addition of olives and Italian cheeses to the category. The Company was also first to market with a premium offering of 'soft slice' charcuterie products. This range is produced without the need to deep chill prior to slicing and the impact of this process on eating quality and flavour has been exceptional.

A new and exciting project is the planned launch of a range of charcuterie products under the 'Jamie Oliver' brand in the autumn. The range will also include fresh pasta, sausage, fresh pork and bacon products. Jamie is well respected by the public for his simple approach to food and cooking and the success of his television series and book sales bear testament to this. This new range has fantastic potential to drive sales across all categories with many of the major grocery retailers.


These are exciting times for the Company. The business continues to grow and there are still many opportunities to be developed. Cranswick is one of the best invested meat based food producers in the UK and this, coupled with the ongoing work on innovation, efficiency, service levels and, most importantly, with the quality of the people in the businesses, should keep Cranswick as the supplier of choice for its customers.

**Bernard Hoggarth**
**Chief Executive**

24 May 2010

# AWARDS AND RECOGNITION

**Best Pork Product**
**Best Red Meat Product**
Richard Woodall Dry Cured Bacon

## Meat Management Awards

| | | |
|---|---|---|
| 2010 | **Winner** | **Best Pork Product** and **Best Red Meat Product**<br>Richard Woodall Dry Cured Bacon |
| 2009 | **Winner** | **Manufacturer of the Year** |

## Grocer Own Label Excellence Award

| | | |
|---|---|---|
| 2010 | **Gold** | **Meat Joints Category**<br>Sainsbury's Taste the Difference British Ultimate Outdoor Reared Dry Cured Unsmoked Gammon Joint |
| | **Silver** | **Chilled Savoury Category**<br>Sainsbury's Taste the Difference British Pork Cocktail Sausages Wrapped in a Butter Puff Pastry |
| 2009 | **Winner** | **Delicatessen Meat Category**<br>Sainsbury's Taste the Difference Traditional Spiced Ham |
| | **Winner** | **Bacon & Sausage Category**<br>Morrison's The Best Lightly Oak Smoked Sweetcure Rindless Back Bacon |
| | **Winner** | **Meat & Poultry Grocer Own Label Category**<br>Applewood Smoked Bacon |

## Quality Food Awards

| | | |
|---|---|---|
| 2009 | **Winner** | **Fresh Meat Game and Poultry Award**<br>Sainsbury's Taste the Difference 12 British Ultimate Chipolatas |

## BPEX - Bacon Connoisseur's Week

| | | |
|---|---|---|
| 2010 | | **Overall Winner**<br>M&S Outdoor Bred British Smoked Dry Cured Streaky Bacon |
| 2010 | **Winner** | **Best retailer 'Smoked' category**<br>M&S Outdoor Bred British Smoked Dry Cured Streaky Bacon |
| 2010 | **Winner** | **Best new flavour Category**<br>M&S Outdoor Bred British Demerara Sweet Cure Back Bacon |

## BPEX Foodservice Pork Product of the Year Competiton

| | | |
|---|---|---|
| 2008 | **Gold** | **Best Cured Product**<br>Jack Scaife Hand Cured, Air Dried Gammon Steak |
| | **Gold** | **Best Fresh Pork Cut**<br>Outdoor Reared Hampshire Breed Thick Cut Pork Chops |
| | **Gold** | **Best Pork Ready Meal**<br>Ham Shanks in Dijonnaise Sauce |

| | | |
|---|---|---|
| | **Silver** | **Best Innovative Pork Product**<br>Smokey Flavour Maple BBQ Ribs |
| 2007 | **Gold** | **Best Innovative Pork Product**<br>Pork Shanks |
| | **Gold** | **Best Cured Product**<br>Muscavado Sweetcure Streaky Bacon |
| | **Silver** | **Best Cured Product**<br>Muscavado Sweetcure Back Bacon |
| | **Silver** | **Best Fresh Pork Cut**<br>Hampshire Outdoor Reared Rib Roast |

## Yorkshire Company of the Year 2007

| | | |
|---|---|---|
| 2007 | **Winner** | **Yorkshire Business Enterprise Award** |

## Food Awards 2006

| | | |
|---|---|---|
| 2006 | **Winner** | **Best Packaging for a Product**<br>Sainsbury's Taste the Difference Dry Cured Sweet Cure Back Bacon |

## British Turkey Awards

| | | |
|---|---|---|
| 2006 | **Winner** | **Best Ready to Eat Product Award**<br>Sainsbury's Taste the Difference Free Range Turkey Breast |

## Meat and Poultry News Awards

| | | |
|---|---|---|
| 2009 | **Winner** | **Producer of the Year Award**<br>Cranswick plc supplier - Thomas Dent of Penrith in Cumbria |
| 2005 | **Winner** | **Manufacturer of the Year** |

## Super Meat Awards

| | | |
|---|---|---|
| 2007 | **Winner** | **Best Pork or Bacon Product**<br>Truly Irresistible Oak Smoked Dry Cured Bacon |
| | **Finalist** | **Best Pork or Bacon Product**<br>Sainsbury's Taste the Difference Slow Cooked Outdoor Reared British Pork Belly |
| | **Finalist** | **Best Sausage Product**<br>Sainsbury's Taste the Difference British Pork and Caramalised Red Onion Sausages |
| | **Finalist** | **Best Organic Product**<br>Sainsbury's So Organic Dry Cured British Bacon |
| 2005 | **Finalist** | **Best Sausage Product**<br>Aberdeen Angus Beef Sausage |

## Meat Industry Awards

| | | |
|---|---|---|
| 2006 | **Winner** | **Sausage of the Year**<br>Sainsbury's 'Pancetta & Parmesan' Sausage |

## Guild of Fine Food Retailers 'Great Taste' Awards

| | | |
|---|---|---|
| 2008 | **Gold** | **Taste the Difference Ultimate Oak Smoked Bacon** |
| 2005 | **Gold** | **Smoked Streaky Bacon** |
| | **Silver** | **Unsmoked Streaky Bacon** |
| | **Silver** | **Chilli and Coriander Sausage** |
| | **Bronze** | **Pork Sausage** |

## British Sandwich Association Awards

| | | |
|---|---|---|
| 2005 | **Winner** | **En-Route Retailer of the Year Category** |
| | **Finalist** | **British Sandwich Designer of the Year** |

# GROUP OPERATING AND FINANCIAL REVIEW

## NATURE, OBJECTIVES AND STRATEGIES

### The Group's business

Following the sale of the pet activities on 24 April 2009, the Group's operations are focused entirely on the production and supply of food products. The Company's strategy to focus on food production was further evidenced by the acquisition of the pork processing activities of Bowes of Norfolk Limited, now renamed 'CCF Norfolk', on 24 June 2009. Both transactions are referred to in more detail below. The performance of the business in the year is discussed in the Review of Activities. The business operates entirely in the UK, although a small proportion of sales are exported. It produces a range of high quality, predominantly fresh products including fresh pork, sausages, bacon and cooked meats for sale to the high street food retailers. It also supplies a range of pre-sliced, pre-packaged charcuterie products for sale into these same customers, together with a range of pre-packed sandwiches predominantly for sale into food service outlets. The markets in which the food business operates are competitive both in terms of pricing from fellow suppliers and the retail environment in general. The UK food retail market is known to be amongst the most competitive in the world. Despite this, Cranswick has a long record of increasing sales and profits through a combination of investing in modern efficient factories, developing a range of quality products and making sound acquisitions. The businesses are under the control of stable, experienced and talented operational management teams supported by a skilled workforce.

### Business objectives

It is the Board's view that meeting the following business objectives is key to achieving the financial and non-financial measures that increase value to Shareholders and other stakeholders:

- Delivering innovative, quality products to our customers
- Maintaining the highest level of service to our customers
- Improving operational efficiency
- Securing employee health and safety
- Maximising returns on investment

### Business strategies

The Group's market strategy is to focus primarily on the growing quality end of the markets in which it operates, to establish meaningful and long-lasting relationships with its major customers by a combination of product development and high service levels and to invest in quality facilities and the latest equipment to enable it to operate as efficiently as possible. Operational management is given responsibility for developing plans to deliver the objectives of the Group with particular emphasis on growing sales through product innovation and high service levels, improving operational efficiency and securing employee health and safety. The role of the Board in achieving Group objectives is to support operational management and to identify suitable acquisitions that will take the Group into new and growing areas of the market, will open up new customer relationships to the Group or will consolidate existing market positions.

# CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

## Business development and performance

The key features of the year have been the record profit before tax for the Group and the continuing strong cash generation from operating activities. The record of unbroken growth in profits now goes back more than 20 years. The trading environment in which we operate has remained challenging; in particular we experienced delays in passing on increases in raw material costs through the first half of the year as the input cost inflation experienced in the prior year continued with prices peaking in the summer. Prices subsequently eased slightly but more recently have moved moderately higher. The Group has experienced continuing competitor pressure although the efficiencies achieved as extra volumes are put through our factories have mitigated to some extent against those pressures.

| **Revenue** | **2010** | 2009 |
|---|---|---|
| | **£m** | £m |
| Revenue from continuing operations | **740.3** | 606.8 |

The Group's revenue from continuing operations has increased by 22 per cent, of which 11 per cent was organic, with the balance from CCF Norfolk. Sales of fresh pork have grown by 48 per cent, reflecting the contribution of CCF Norfolk, sausages by 23 per cent, bacon by 61 per cent, cooked meats by 13 per cent and charcuterie by 8 per cent whilst sandwich sales which, as anticipated, recovered strongly in the second half of the year, were 1 per cent lower. Revenue in the income statement excludes the activities of the pet business, since under IFRS the results of discontinued operations are disclosed as a single line item at the foot of the income statement.

| **Profit before tax** | **2010** | 2009 |
|---|---|---|
| | **£m** | £m |
| Operating profit from continuing operations | **45.9** | 38.4 |
| Net finance costs | **(2.1)** | (3.7) |
| Profit from continuing operations before tax | **43.8** | 34.7 |

The increase in operating profit from continuing operations is attributable to a combination of strong sales growth and improved operational efficiency. The reduction in net finance costs was as a result of the strong cash flow and the full year benefit of the reduction in UK interest rates seen in the latter part of the previous financial year.

## Discontinued operations

On 24 April 2009 the Board announced that the pet division activities had been sold, following a competitive process, to a management buyout team. Accordingly the results of the pet division have been reported as discontinued at 31 March 2010 and 31 March 2009. The pet business produced a range of bird and small animal food for sale into specialist pet and more general retail outlets, as well as selling tropical marine fish and aquatic products largely into specialist retailers both in the UK and abroad. The sale proceeds of £18.4 million were received in cash.

In the four week period prior to its sale, the pet division generated a profit before tax of £30,000 (year ended 31 March 2009 - £2,038,000 before an impairment charge of £2,544,000). Turnover for the same period was £3.6 million (year ended 31 March 2009 - £46.5 million).

## Acquisition of Bowes of Norfolk Limited

On 24 June 2009, after receiving clearance from the UK Competition Authorities, the Company acquired the whole of the issued share capital of Bowes of Norfolk Limited (CCF Norfolk) for a net cash consideration, before costs, of £10.5 million. CCF Norfolk is a significant operator in the pork processing sector and the acquisition reinforces Cranswick's position in that industry.

## Business KPIs

The Board has assessed that the following KPIs are the most effective measures of progress towards achieving the Group's objectives:

- Organic sales growth – year on year increase in sales revenue excluding the impact of acquisitions and disposals
- Gross margin – gross profit as a percentage of sales revenue
- Operating margin – operating profit as a percentage of sales revenue
- Free cash flow – cash generated from operations less tax and interest paid

| **Performance against KPIs** | **2010** | 2009 |
|---|---|---|
| Organic sales growth (continuing) | **11.2%** | 9.2% |
| Gross margin (continuing) | **13.1%** | 14.1% |
| Operating margin (continuing) | **6.2%** | 6.3% |
| Free cash flow | **£29.6m** | £41.2m |

The Company has seen substantial organic sales growth in the underlying business of 11.2 per cent over the past year driven by its expertise in product development, service levels, quality and value with further sales growth anticipated in the next twelve months. CCF Norfolk contributed a further 10.8 per cent of sales growth in the period following its acquisition on 24 June 2009. Gross margin including the contribution from CCF Norfolk was 13.1 per cent of sales compared to 14.1 per cent a year ago. Excluding CCF Norfolk, gross margin at 13.9 per cent was only slightly below the prior year level, despite the continued raw material cost inflation experienced during the first half of the year as the business achieved improved operating efficiencies. Operating margin on the same basis at 6.7 per cent was 0.4 per cent higher. Margins were lower in the newly acquired CCF Norfolk business, but this is being addressed through a combination of capital investment and operational efficiency improvements. Principal cash flows are discussed under financial position and performance, below.

## Future development

The Group will continue to seek to increase sales through a combination of product development with existing customers and business gains with new ones. The standard of the Group's factories will be maintained at the highest level and further suitable acquisition opportunities will be pursued.

# RESOURCES, RISKS AND RELATIONSHIPS

## Resources

The Group aims to safeguard the assets that give it competitive advantage, being its reputation for product innovation, product quality, food safety and service levels; its modern well-equipped factories; its operational management and its skilled workforce.

## Reputation

It is the responsibility of local operational management assisted by their own product development team, Group Technical and Group Health & Safety to maintain and where possible enhance the Group's reputation for product innovation, product quality, food safety and service levels.

## Factories

The Group has some of the best-invested, modern facilities in the industry, having invested £94 million over the past five years, and it intends to continue investing to ensure that it maintains its competitive edge.

## Employees

The Group aims to recruit, train and retain employees who are valued for their contribution and able to fulfil their potential in meeting the business objectives of their operating unit. The Group companies each have their strategies for retaining staff, including the provision of competitive terms and conditions, share options and a stimulating and challenging working environment. The Group has had a savings-related share option scheme in place for over 10 years, which is open to all employees with 2 years' service and has proved very successful with many staff now also Shareholders.

## Principal risks and uncertainties

The Group annually carries out a formal exercise to identify and assess the impact of risks on its businesses and the exercise has recently been reviewed.

The more significant risks and uncertainties faced by the Group, in line with the rest of the food production sector, are identified as competition and customer retention, food safety, business continuity, environmental matters, raw material prices and legislation. These are discussed in more detail below.

**Competition and customer retention** – The Company manages the risk of operating in a consolidated sector by maintaining strong customer relationships. This process is supported by delivering high levels of service and quality and by continued focus on product development and technical innovation.

**Food safety** – The risk of food scares is mitigated by ensuring that all raw materials are traceable to source and that manufacturing, storage and distribution systems are continually monitored by experienced and well qualified site based and Group technical teams.

**Business continuity** – The Group faces the risk of incidents such as a major fire, which may result in significant and prolonged disruption to its operating facilities. Business continuity plans are in place across the Group's manufacturing facilities and appropriate insurance cover is in place to mitigate any financial loss. Business continuity has been further enhanced by the acquisition of a second pork processing site in Norfolk during the year.

**Environmental matters** – The Directors believe that good environmental practices support the Board's strategy by enhancing the reputation of the Group, the efficiency of production and the quality of products. The industry is subject to a range of UK and EU legislation. Environmental standards are being tightened on a regular basis and require increasing levels of investment. Compliance imposes costs and prolonged failure to comply could materially affect the Group's ability to operate. Further details of these initiatives are set out in the Group's Corporate Social Responsibility report and on the Group's website under the '**Greenthinking**' banner.

**Raw material prices** – The major exposure the Group has to raw material price fluctuations is pig meat, part of which is as a result of currency movements. Purchasing of pigs and pig meat is co-ordinated centrally and whilst the Company does not generally seek to hedge against pig price movements because of the downside risk, longer term contracts have been negotiated in certain instances with key pig suppliers.

**Legislation** - Legislation in all the markets we serve changes on a regular basis, and interpretation of existing laws can also change to create ever tightening standards, often requiring additional human resources and the provision of new assets and systems. We are committed to respond positively to new regulation and ensure that our views are expressed during consultation exercises.

# FINANCIAL POSITION AND PERFORMANCE

## Exceptional items

The exceptional charge of £6.1 million in 2009 related to a one-off, non-cash, exceptional deferred tax charge arising from a change in UK corporation tax legislation in the Finance Act 2008 to phase out Industrial Buildings Allowances and is referred to in more detail below.

## Finance costs

Finance costs of £2.1 million (2009 - £3.7 million) were lower than the previous year reflecting the strong cash generation in the year and the full year benefit of the reduction in UK interest rates seen in the second half of the last financial year.

## Taxation

The tax charge as a percentage of profit from continuing operations before taxation was 25.8 per cent in the current year and 28.7 per cent in 2009 excluding the one-off exceptional deferred tax charge of £6.1 million. This exceptional charge had no impact on the cash flow of the business during the prior year and represented the additional tax payable over the twenty five year period the allowances would have been available to the Group. The standard rate of UK Corporation Tax was 28 per cent for both 2010 and 2009. The lower than standard rate of tax in the current year primarily relates to prior year deferred tax adjustments and should not therefore be interpreted as an ongoing feature. In addition the Group benefits from tax amounts taken directly to equity and included in the Group Statement of Comprehensive Income and Group Statement of Changes in Equity.

## Earnings per share

Basic earnings per share from continuing operations, and before the exceptional deferred tax charge in the prior year, increased by 30 per cent to 69.7 pence. The average number of shares in issue was 46,534,000 (2009 – 46,099,000).

## Cash flow

The Group has continued to generate strong operational cash flows. Cash generated from operating activities was £32.2 million (2009 - £44.8 million) with higher Group profit offset by higher tax payments and an increase in working capital; a significant part of which was attributable to the newly acquired CCF Norfolk. The net cash outflow from investing activities of £11.8 million reflects capital additions, net of fixed asset sale proceeds, of £19.9 million, and the net inflow from acquisitions and disposals of £8.1m. The previous year's outflow was £20.7 million and comprised entirely of capital additions, net of fixed asset sale proceeds, of £20.7m. The £8.4 million of net cash used in financing activities in 2010 is largely due to interest paid of £2.7 million, dividends paid of £8.8 million and proceeds from issue of share capital of £2.9 million. The prior year cash outflow from financing of £24.4 million was largely due to interest paid of £3.6 million, dividends paid of £8.8 million, issue costs of long term borrowings of £1.3 million and net repayment of borrowings of £11.2 million. The overall result is a net increase in cash and cash equivalents of £12.0 million (2009 – decrease of £0.3 million).

## Net debt

Net debt reduced by £11.9 million to £54.7 million (2009 - £66.6 million) at the year end, resulting from strong operating cash flows and the net cash inflow from acquisitions and disposals.

## Pensions

The Company operates a number of defined contribution schemes, whereby contributions are made to schemes operated by major insurance companies. Contributions to these schemes are determined as a percentage of employees' basic salary. CCF Norfolk operates a defined benefit scheme which has been closed to further accrual since 2004. Under International Accounting Standard (IAS) 19, the deficit at the date of acquisition was £5.8 million and this had reduced to £5.4 million at 31 March 2010. The present value of funded obligations was £17.1 million and the fair value of plan assets was £11.8 million.

## Capital structure

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise value for Shareholders and other stakeholders.

The Group regards its Shareholders' equity as its capital and manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to Shareholders, return capital to Shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 March 2010 and 31 March 2009.

The Group's capital structure is as follows:

| | **2010** | 2009 |
|---|---|---|
| | **£m** | £m |
| Net debt | **54.7** | 66.6 |
| Cranswick plc Shareholders' equity | **193.6** | 166.5 |
| Capital employed | **248.3** | 233.1 |

## Distributions, capital raising and share repurchases

The proposed final dividend for 2010 together with the interim paid in January 2010 amount to 25.0 pence per share which is 15 per cent higher than the previous year. The increase in the share capital of the Group comprises 504,196 of share options exercised during the year, 265,913 in respect of scrip dividends and 100,000 shares allotted to the Cranswick plc Employee Benefit Trust. There were no share repurchases during the year.

# TREASURY POLICIES

## Functional currency

The functional currency of all Group undertakings is sterling.

## Foreign currency risk

The major foreign exchange risk facing the Group is in the purchasing of charcuterie products. The major currency involved is the euro. The policy of the Group is to seek to mitigate the impact of this risk by taking out forward contracts with UK banks for up to 12 months ahead and for amounts that commence at approximately 25 per cent of the requirement and move progressively towards full cover. At least 2 members of the main Board attend the monthly meetings of the subsidiary Board at which the key decisions on currency cover are taken.

## Interest rate risk

The Group's policy is to manage its cost of borrowing using a mix of fixed and variable rate debt. Whilst fixed rate interest bearing debt is not exposed to cash flow interest rate risk, there is no opportunity for the Group to enjoy a reduction in borrowing costs in markets where rates are falling. In addition, the fair value risk inherent in fixed rate borrowing means that the Group is exposed to unplanned costs should debt be restructured or repaid early as part of the liquidity management process. In contrast, whilst floating rate borrowings are not exposed to changes in fair value, the Group is exposed to cash flow risk as costs increase if market rates rise. Cover was implemented by taking out an interest rate swap agreement with three UK banks on the amortising portion (£35 million) of the medium term loan drawn down when the Group renewed its credit facilities in December 2008. This is being repaid at the rate of £2.5 million every 3 months from March 2009 to September 2011, with the balance of £7.5 million repayable in December 2011. The hedging policy is reviewed from time to time as circumstances change. The monitoring of interest rate risk is handled entirely at head office, based on the monthly consolidation of cash flow projections and the daily borrowings position.

## Credit risk

Practically all sales are made on credit terms, the majority of which are to the major UK food retailers. Overdue accounts are reviewed at the monthly Board meetings of the operations. The incidence of bad debts is low. For all major customers, credit terms are agreed by negotiation and for all other customers, credit terms are set by reference to external credit agencies. Every attempt is made to resist advance payments to suppliers for goods and services; where this proves impossible, arrangements are put in place, where practical, to guarantee the repayment of the monies in the event of default.

## Liquidity risk

The Group has historically been very cash generative. The bank position for each operation is monitored on a daily basis and capital expenditure is approved at the monthly Board meeting of each operation at which at least two members of the main Board are present and reported at the subsequent monthly main Board meeting. Major projects are approved by the main Board. Each operation has access to the Group's overdraft facility and all term debt is arranged centrally. The facilities currently available to the Group are a term loan of £35.0 million (£20.0 million of which was drawn down during the year) repayable in December 2011, an amortising loan facility of £25.0 million repayable in seven quarterly instalments of £2.5 million, with a final repayment of £7.5 million in December 2011, a revolving credit facility of £30.0 million and an overdraft facility of £20.0 million. Unutilised facilities at 31 March 2010 were £54.0 million (2009 - £53.0 million).

# GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Review of Activities. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described above, as are the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Group has considerable financial resources together with strong trading relationships with its key customers and suppliers. As a consequence, the Directors believe that the Group is well placed to manage its business risk successfully.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

**On behalf of the Board**

**Mark Bottomley**
**Finance Director**

24 May 2010

# BUSINESS LOCATIONS


# GROUP DIRECTORS

**Cooked Meats**
Nick Tranfield
Paul Gartside
Andy Jenkins
Clive Stephens

**Bacon & Sausage**
Linda Watkin
Bill Crossland
Daniel Nolan

**Fresh Pork**
Neil Willis
James Pontone
Stuart Kelman
Chris Aldersley

**Sandwiches**
Tony Cleaver
Paul Nicholson
Simon Ravenscroft
Nick Anderson

**Charcuterie**
Rollo Thompson

**Food Central**
Jim Brisby
Malcolm Windeatt
Andrew Caines

# DIRECTORS

## Executive Directors

**+ Martin Davey, Chairman**

Martin qualified as a chartered accountant with Pannell Kerr Forster. He joined Cranswick and became Finance Director in 1985. He was appointed Chief Executive in 1988 and became Chairman on 26 July 2004.

**Bernard Hoggarth, Chief Executive**

Bernard holds a National Diploma in Agriculture from the Norfolk College of Agriculture. He joined Cranswick in 1978, focusing on the agribusiness activity before becoming involved in the development of the food manufacturing business during the 1990s. He was appointed a Director in 1988 and Chief Executive in 2004.

**Adam Couch**

Adam joined the operational side of the fresh pork business of Cranswick in 1991 after graduating with a finance and accountancy degree from the University in Hull. He was appointed a Director in 2003 and is currently Managing Director of the Fresh Pork operations. Adam is also a committee member of the British Pig Executive a position he has held since 2005.

**Mark Bottomley, Finance Director**

Mark is a chartered accountant, qualifying with Binder Hamlyn. He joined Cranswick as Group Financial Controller in January 2008 and was appointed Finance Director in June 2009. He has several years experience in the food production sector where he has held a variety of senior finance roles.

## Non-Executive Directors

**+†* John Worby**

John is a chartered accountant with many years experience in the food industry. John is currently Group Finance Director of Genus plc having previously worked for Uniq plc (formerly Unigate PLC) from 1978 until 2002, in various roles including Group Finance Director and Deputy Chairman. He was appointed a Non-Executive Director of Cranswick plc on 1 August 2005 and is Senior Independent Director and Chairman of the Audit Committee. John is also a Non-Executive Director of Smiths News plc.

**+†* Patrick Farnsworth**

Patrick has many years experience in the food industry, having worked for William Jackson & Son Limited, a Hull based private company, since 1965, where he was Joint Group Managing Director from 1995 until his retirement in 2005. He was appointed a Non-Executive Director of Cranswick plc on 1 August 2004 and was the senior independent Director until 1 August 2005.

**+†* Steven Esom**

Steven joined Cranswick as a Non-Executive Director on 12 November 2009. He has held a number of senior positions within the food sector including Executive Director of Food at Marks & Spencer plc which followed 12 years at Waitrose, the last 5 years of which he was Managing Director. Until June 2009 he was a Non-Executive Director of Carphone Warehouse plc. He is currently an Operating Partner of Langholm Capital, Non-Executive Chairman of Barts Spices and a Non-Executive Director of Tyrells Investments Limited.

* Member of Remuneration Committee
† Member of Audit Committee
\+ Member of Nomination Committee

# DIRECTORS' REPORT

The Directors submit their report and the audited accounts of the Group for the year ended 31 March 2010.

## Principal activities, business review and future developments

The Group's activities during the year were focused on the food sector. A review of the business and future development of the Group and a discussion of the principal risks and uncertainties faced by the Group is presented in the Chairman's Statement and Review of Activities on pages 3 to 9 and in the Group Operating and Financial Review on pages 13 to 19.

## Results and dividends

The profit on ordinary activities before taxation from continuing operations was £43.8 million (2009 - £34.7 million). After a taxation charge of £11.3 million (2009 - £16.0 million), the profit for the year is £32.6 million (2009 - £19.0 million). An interim dividend of 8.0 pence per ordinary share was paid on 22 January 2010. The Directors recommend the payment of a final dividend for the year, which is not reflected in these accounts, of 17.0 pence per ordinary share which, together with the interim dividend, represents 25.0 pence per ordinary share, totalling £11.7 million (2009 – 21.7 pence per ordinary share, totalling £10.0 million). Subject to approval at the Annual General Meeting, the final dividend will be paid in cash or scrip form on 3 September 2010 to members on the register at the close of business on 2 July 2010. The shares will go ex-dividend on 30 June 2010.

## Financial instruments

The Group's risk management objectives and policy are discussed in the Treasury Policies section of the Group Operating and Financial Review on pages 18 to 19.

## Directors and their interests

The appointment and removal of a Director is governed by the Articles of Association and within the Terms of the Nomination Committee. The Company's Articles of Association provide that one third of the Directors retire by rotation each year and with the proviso that each Director shall seek re-election at the Annual General Meeting every three years. All new Directors are subject to election by Shareholders at the first opportunity following their appointment. The Directors of the Company currently in office are as stated on page 21. Martin Davey, Bernard Hoggarth, Adam Couch, John Worby and Patrick Farnsworth served for the whole of the year under review. Derek Black resigned as a director on 24 April 2009 following the disposal of the Pet Division and John Lindop retired as a director on 31 May 2009. Mark Bottomley was appointed Finance Director on 1 June 2009 and Steven Esom as a Non-Executive Director on 12 November 2009. Martin Davey and Bernard Hoggarth retire in accordance with the Articles of Association and, being eligible, each offers himself for re-election. Steven Esom who was appointed since the last Annual General Meeting will stand for election.

Details of the Directors' beneficial interests in the ordinary share capital of the Company are included in the Directors' Remuneration Report on page 40.

## Major Shareholders

The Company has been informed of the following significant holdings of voting rights at 1 May 2010 in the 47,336,523 ordinary shares of the Company:

| | Number of Shares | % of issued share capital |
|---|---|---|
| AMVESCAP PLC | 13,949,221 | 29.47 |
| Legal & General Investment Management | 2,928,195 | 6.19 |
| Jupiter Asset Management | 2,437,114 | 5.15 |
| Artemis Investment Management | 1,706,924 | 3.61 |
| Standard Life Investments | 1,672,169 | 3.53 |

## Share capital structure

The Company has one class of shares, being ordinary shares of 10p each. The authorised, allotted and fully paid up share capital is shown in note 24. There are no special rights pertaining to any of the shares in issue.

The Directors of Cranswick plc have received limited authority to disapply Shareholders' pre-emption rights in certain circumstances, to authorise the Company to buy back a proportion of the Company's share capital and to allow the Directors to allot shares. Further resolutions will be placed before the Annual General Meeting to be held on 26 July 2010 to renew these powers.

At the last Annual General Meeting the Directors received authority from the shareholders to:

**Allot Shares** – this gives Directors the authority to allot authorised but unissued shares and maintains the flexibility in respect of the Company's financing arrangements. The nominal value of ordinary shares which the Directors may allot in the period up to the next Annual General Meeting, to be held on 26 July 2010, is limited to £1,548,826 which represents approximately 33 per cent of the issued share capital (excluding treasury shares) as at 29 May 2009. The Directors do not have any present intention of exercising this authority other than in connection with the issue of ordinary shares in respect of the scrip dividend offer and the Company's share option plans. This authority will expire at the end of the Annual General Meeting to be held on 26 July 2010.

**Disapplication of rights of pre-emption** – this disapplies rights of pre-emption on the allotment of shares by the Company and the sale by the Company of treasury shares. The authority will allow the Directors to allot equity securities for cash pursuant to the authority to allot shares mentioned above, and to sell treasury shares for cash, on a pro rata basis to existing shareholders (but subject to any exclusion or arrangements as the Directors consider necessary or expedient in relation to fractional entitlements, any legal, regulatory or practical problems or costs under the laws or regulations of any overseas territory or the requirements of any regulatory body or stock exchange) and otherwise on a pro rata basis up to an aggregate nominal amount of £232,347, representing 5 per cent of the Company's issued share capital as at 29 May 2009. This authority will expire at the end of the Annual General Meeting to be held on 26 July 2010.

**Allot shares and disapply pre-emption rights in connection with a rights issue** – this authorises the Directors to allot relevant securities and empowers the Directors to allot equity securities and to sell treasury shares for cash in connection with a rights issue. This is in addition to the authority to allot shares and the disapplication of pre-emption rights contained in the authorities mentioned above. The nominal value of ordinary shares which the Directors may allot in the period up to the next Annual General Meeting, to be held on 26 July 2010, is limited to £1,548,826 which represents approximately 33 per cent of the Company's issued ordinary share capital (excluding treasury shares) as at 29 May 2009. The Directors do not have any present intention of exercising this authority and power. This authority will expire at the end of the Annual General Meeting to be held on 26 July 2010.

**To buy own shares** – this authority allows the Company to buy its own shares in the market, as permitted under the Articles of Association of the Company, up to a limit of 10 per cent of the Company's issued share capital. The price to be paid for any share must not be less than 10p, being the nominal value of a share, and must not exceed 105 per cent of the average middle market quotations for the ordinary shares of the Company as derived from the London Stock Exchange Daily Official List for the 5 business days immediately preceding the day on which the ordinary shares are purchased. The Directors have no immediate plans to exercise the powers of the Company to purchase its own shares and undertake that the authority would only be exercised if the Directors were satisfied that a purchase would result in an increase in expected earnings per share and was in the best interests of the Company at the time. This authority will expire at the end of the Annual General Meeting to be held on 26 July 2010. The Directors would consider holding any of its own shares that it purchases pursuant to this authority as treasury shares.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and for voting rights.

There are no restrictions on the transfer of ordinary shares in the Company other than where certain restrictions may apply from time to time, on the Board of Directors and other senior executive staff, which is imposed by laws and regulations relating to insider trading laws and market requirements relating to close periods.

## Employment policies

The Group's policy on employee involvement is to adopt an open management style, thereby encouraging informal consultation at all levels about aspects of the Group's operations. Employees participate directly in the success of the business by participation in the SAYE share option schemes.

Employment policies are designed to provide equal opportunities irrespective of colour, ethnic or natural origin, nationality, sex, religion, marital or disabled status. Full consideration is given to applications for employment by and the continuing employment, training and career development of disabled people.

## Payment policy

The Group and the Company do not have a formal policy that they follow with regard to payment to suppliers. Payment terms are agreed with each supplier and every endeavour is made to adhere to the agreed terms. The average credit terms for the continuing Group, based on the year-end trade creditors figure and a 365 day year, are 35 days. The average credit taken by our customers on a similar basis is 32 days.

## Essential Contracts

It is imperative that Cranswick is able to source its high quality raw materials at the most competitive prices and to this end the Company has numerous supply contracts in place. While these contracts are collectively essential to the business, no single contract or supplier is critical to the Company's business.

The Company also has strong relationships with certain major retailers to supply them with product.

## Auditors

Ernst & Young LLP have expressed their willingness to continue in office and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

## Directors' statement as to disclosure of information to auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 21. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirm that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

## Change of control

There are no agreements that the Company considers significant and to which the Company is party that would take effect, alter or terminate upon change of control of the Company following a takeover bid other than the following:

- The Company is party to a number of banking agreements which upon a change of control of the Company are terminable by the bank upon the provision of 10 working days notice, and
- There are no agreements between the Company and its directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid other than as stated in the Directors Remuneration Report relating to Martin Davey and Bernard Hoggarth.

## Long Term Incentive Plan

In the event of a general offer being made to acquire part or all of the issued share capital of the Company as a result of which the offeror may acquire control of the Company, award holders under the Cranswick plc Long Term Incentive Plan ('LTIP') will have an opportunity to exercise their awards either:

a) immediately before the time at which the change of control of the Company occurs or any condition subject to which the offer is made has been satisfied ('Take-over Date') but conditional on the Take-over Date occurring, if the Remuneration Committee issues a written notice in advance of the Take-over Date to award holders; or

b) at any time within 6 months following the Take-over Date, in any other case.

In the event that the Court sanctions a scheme of arrangement under Part 26 of the Companies Act 2006 in connection with a scheme for the Company's reconstruction or amalgamation with another company, award holders under the LTIP may exercise their awards during the six month period commencing on the date upon which the scheme of arrangement is sanctioned by the Court. The LTIP also contains provisions enabling award holders to exercise their awards if a person becomes entitled to issue a compulsory acquisition notice under the provisions relating to the compulsory acquisition of a company set out in the Companies Act 2006. The period allowed for exercise in these circumstances is any time up to the seventh day before the final day upon which that person remains entitled to serve such a notice.

In each case, the extent to which awards are capable of exercise depends on the scope to which the performance targets (as adjusted or amended) have been satisfied.

## Articles of Association

The Company's Articles of Association may only be amended by a special resolution at a general meeting of the Shareholders.

## Annual General Meeting and Special Business to be transacted at the Annual General Meeting

The notice convening the Annual General Meeting can be found in the separate Notice of Annual General Meeting accompanying this Report and Accounts.

Details of the Special Business to be transacted at the Annual General Meeting are contained in the separate letter from the Chairman which also accompanies this Report and Accounts, and covers the Directors' authority to allot shares, the partial disapplication of pre-emption rights and the authority for the Company to buy its own shares.

**By order of the Board**

## Malcolm Windeatt
## Company Secretary

24 May 2010
Company number: 1074383

# CORPORATE GOVERNANCE STATEMENT

## STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE PROVISIONS OF THE COMBINED CODE

### Principles of good governance

The Board is committed to high standards of corporate governance. The adoption and maintenance of good governance is the responsibility of the Board as a whole. This report, together with the Directors' Remuneration Report on pages 35 to 40, describes how the Board applies the principles of good governance and best practice as set out in the Combined Code on Corporate Governance (the 'Combined Code') which can be found on the Financial Reporting Council's website (www.frc.org.uk). A statement of compliance with the Combined Code can be found at the end of this report.

### The Board

During the year ended 31 March 2010, the Board consisted of an Executive Chairman, a Chief Executive (and up to 24 April 2009 a Chief Executive of the pet division), two other Executive Directors and two Non-Executive Directors until 12 November 2009 after which there were three. All the Non-Executive Directors are deemed to be independent. The Combined Code states that at least half the board, excluding the chairman, should comprise Non-Executive Directors determined by the Board to be independent. The Board is confident that since 12 November 2009 it has complied with this requirement of the Combined Code.

The Board meets each month to direct and control the overall strategy and operating performance of the Group. To enable them to carry out these responsibilities all Directors have full and timely access to all relevant information. A formal schedule of matters reserved for decision by the Board covers key areas of the Group's affairs including acquisition and divestment policy, approval of budgets, major capital expenditure projects, profit and cash flow performance and general treasury and risk management policies. During the year responsibility for the Group's day-to-day operations was delegated to the Chief Executive who, supported by the Executive Directors and Executive management, implements the Board's strategy and manages the Group's business. Upon appointment, all Directors undertake a formal introduction to all the Group's activities and are also provided with the opportunity for on-going training to ensure that they are kept up-to-date on changes in relevant legislation and the general business environment, including the review of relevant literature and attending external courses. Procedures are in place for Directors to seek both independent advice, at the expense of the Company, and the advice and services of the Company Secretary in order to fulfil their duties. The Company Secretary is responsible to the Board for ensuring that Board procedures are complied with and for advising the Board, through the Chairman, on all governance matters. The appointment and removal of the Company Secretary is determined by the Board as a whole.

The Board has completed a register relating to potential conflicts of interest with its Directors and confirms that no such conflicts exist. This register will be reviewed annually or at such other time as is deemed necessary.

The Board, led by the Chairman, has carried out a formal evaluation of its performance and that of its Committees under a system based on a questionnaire circulated to all Directors which was used to facilitate a Board discussion. The evaluation exercise showed that the Board and its Committees were working well but, as expected, a number of actions were agreed to improve effectiveness. The Chairman has evaluated the performance of individual Directors through one-to-one meetings. The Chairman meets with the Non-Executive Directors at least once a year to share his assessment of Executive Board member performance. In addition, the Non-Executive Directors, led by the Senior Independent Director, meet, without the Chairman present, in order to appraise his performance.

The Company's Articles of Association provide that one third of the Directors retire by rotation each year and with the proviso that each Director shall seek re-election at the Annual General Meeting every three years. All new Directors are subject to election by Shareholders at the first opportunity following their appointment.

Directors' biographies and membership of the various Committees are shown on page 21. The formal terms of reference for the Board Committees together with the terms and conditions of appointment of Non-Executive Directors are available for inspection at the Company's Registered Office and at the Annual General Meeting.

## BOARD COMMITTEES

### Audit Committee

The Audit Committee comprised of two independent Non-Executive Directors, John Worby and Patrick Farnsworth until 12 November 2009 when Steven Esom joined the Board, increasing the number to three. The Committee is chaired by John Worby, the Group's Senior Independent Director, who is a chartered accountant, has considerable recent relevant financial experience and has spent many years in the food industry. Patrick Farnsworth has many years experience in the food sector where he was Joint Managing Director of William Jackson & Son Limited until his retirement in 2005. Steven Esom has held a number of senior positions within the food industry including Managing Director at Waitrose and Executive Director of Food at Marks & Spencer. It is a requirement of the Combined Code that the Audit Committee should comprise of at least three independent Non-Executive Directors. The Board is confident that the Group, since 12 November 2009, complies with this requirement.

The Chairman, the Finance Director, who is ultimately responsible for assessing the Group's internal financial controls, and the Group Financial Controller, together with the external auditors and, when requested, internal audit attend the meetings as appropriate. The external auditors have the opportunity to access the Committee, without the Executive Directors being present, at any time, and the Committee formally meets with the external auditors at least once a year on this basis.

The Committee reviews the Group's accounting policies and internal reports on accounting and internal financial control matters together with reports from the external auditors. The Audit Committee has overall responsibility for monitoring the integrity of financial statements and related announcements and for all aspects of internal control and meets at least three times a year, two of which involve a review of the Group's interim and full year financial statements. The Audit Committee considers annually the extent and effectiveness of the work of the internal audit function. The Audit Committee is also responsible for recommendations for the appointment, reappointment or removal of the external auditors and for reviewing their effectiveness. The Committee puts the external audit function out to tender every four to five years, the last such tender being in 2008. The external auditor's performance is assessed each year. The Committee also approves the terms of engagement and remuneration of the external auditors, and monitors their independence. There is a policy in place in relation to the types of non-audit services the external auditors should not carry out so as not to compromise their independence and these would include internal accounting or other financial services, internal audit services or their outsourcing, executive or management roles or functions, and remuneration consultancy. There is also a whistle blowing policy in place which includes arrangements by which staff can, in confidence, raise concerns about possible improprieties in matters of financial reporting and other matters.

The terms of reference for the Audit Committee are available from the Company Secretary.

The Chairman of the Audit Committee will be available at the Annual General Meeting to respond to any Shareholder questions that might be raised on the Committee's activities.

**Internal Control**

The Board of Directors has overall responsibility for the Group's system of internal control, which safeguards the Shareholders' investment and the Group's assets, and for reviewing its effectiveness. Such a system can only provide reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

The Group operates within a clearly defined organisational structure with established responsibilities, authorities and reporting lines to the Board. The organisational structure has been designed in order to plan, execute, monitor and control the Group's objectives effectively and to ensure that internal control becomes embedded in the operations.

The Chairman of the Audit Committee reports to the Board on issues relating to internal controls and risk management following each Audit Committee meeting. The Board confirms that the key on-going processes and features of the Group's internal risk based control system, which accord with the Turnbull guidance, have been fully operative throughout the year and up to the date of the Annual Report being approved. These include; a process to identify, evaluate and manage business risk (as detailed in the Group Operating and Financial Review); a strong control environment; an information and communication process; a monitoring system; and a regular Board review of effectiveness. The Group Finance Director is ultimately responsible for overseeing the Group's internal controls.

During the year the management team identified the key business risks within their operations, considered the financial implications and assessed the effectiveness of the control processes in place to mitigate these risks. The Board reviewed a summary of the findings and this, along with direct involvement in the strategies of the businesses, investment appraisal and the budgeting process, enabled the Board to report on the effectiveness of internal control. Following its review the Board determined that it was not aware of any significant deficiency or material weakness in the system of internal control.

**Financial Reporting**

The Group prepares annual budgets that are agreed by the Board. Operational management are required to report to the Board on a monthly basis on financial performance including trading results, balance sheet, cash flows and related key performance indicators. Updated forecasts are prepared half yearly together with information on key risk areas. The use of a standard reporting pack by all Group entities ensures that the information is gathered and presented in a consistent way that facilitates the preparation of the consolidated financial statements.

**Internal Audit**

The Group's internal audit function comprises of company employees supported by Grant Thornton, which provides specialist advice and resources where necessary. Internal audit is required to report to the Audit Committee on the extent to which systems of internal control are effective and to provide independent and objective assurance that the processes by which significant risks are identified, assessed and managed are appropriate and effectively applied.

The Audit Committee reviews and approves the annual audit plan and receives regular updates on progress in meeting the plan objectives. The internal audit approach is risk based and takes into account the overall Group risk framework, as well as risks specific to individual operations. The plan set out at the beginning of the current year was achieved. Internal audit findings together with responses from management have been considered and where necessary challenged.

**Auditor independence**

The Board is satisfied that Ernst & Young LLP has adequate policies and safeguards in place to ensure that auditor objectivity and independence is maintained. The Group meets its obligations for maintaining an appropriate relationship with the external auditors through the Audit Committee, whose terms of reference include an obligation to consider and keep under review the degree of work undertaken by the external auditor, other than the statutory audit, to ensure such objectivity and independence is safeguarded. There is also an established policy for the work the external auditors can and cannot do so as not to compromise their independence and in addition, the Chairman of the Audit Committee is consulted prior to awarding to the external auditors any non-audit services in excess of £20,000.

During the year the Audit Committee considered the following factors in assessing the objectivity and independence of Ernst & Young LLP:

i) The auditors' procedures for maintaining and monitoring independence, including those to ensure that the partners and staff have no personal or business relationships with the Group, other than those in the normal course of business permitted by UK ethical guidance.

ii) The auditors' policies for the rotation of the lead partner and key audit personnel.

iii) Adherence by management and the auditor to the Group's policy for the procurement of non-audit services.

## Remuneration Committee

The Remuneration Committee comprises of Patrick Farnsworth (Chairman), John Worby and from 12 November 2009 Steven Esom. It is a requirement of the Combined Code that the Remuneration Committee should consist of at least three independent Non-Executive Directors. The Board is confident that since 12 November 2009 the Group complies with this requirement. Martin Davey attends meetings of the Remuneration Committee by invitation and in an advisory capacity. No Director attends any part of a meeting at which his own remuneration is discussed. The Executive Directors determine the remuneration of the Non-Executive Directors.

The Committee recommends to the Board the policy for executive remuneration and determines, on behalf of the Board, the other terms and conditions of service for each Executive Director. It determines appropriate performance conditions for the annual cash bonus and long term incentive schemes and approves awards and the issue of options in accordance with the terms of those schemes. The Remuneration Committee also, in consultation with the Chairman, determine the total individual remuneration package of senior executives including bonuses, incentive payments and share option and other share awards. The Remuneration Committee has access to advice from the Company Secretary and to detailed analysis of executive remuneration in comparable companies. In addition, from time to time the Committee undertakes a more detailed review using external consultants. The last such review was undertaken by Deloitte in 2008 and it is the Committee's intention to conduct a review during the next financial year. Details of the Committee's current remuneration policies are given in the Directors' Remuneration Report on pages 35 and 40.

The terms of reference for the Remuneration Committee are available from the Company Secretary.

The Chairman of the Remuneration Committee will attend the Annual General Meeting to respond to any Shareholder questions that might be raised on the Committee's activities.

## Nomination Committee

The Nomination Committee comprises Martin Davey, the Committee's Chairman, Patrick Farnsworth, John Worby, and from 12 November 2009 Steven Esom. It is a requirement of the Combined Code that a majority of the members of the Nomination Committee should be independent Non-Executive Directors, and the Chairman should be either the Chairman of the Board or a Non-Executive Director. The Board is confident that it fully complies with these requirements of the Combined Code. Due to the integration of the Group and the stability of the Board the Chairman's time commitment to the Committee is not anticipated to be onerous.

The Committee meets at least once a year and reviews the structure, size and composition of the Board and is responsible for considering and making recommendations to the Board on new appointments of Executive and Non-Executive Directors. It also gives full consideration to succession planning in the course of its work taking into account the challenges and opportunities facing the Group and what skills and expertise are therefore needed on the Board and from senior management in the future. The Committee, after carrying out an external search process involving an outside agency and interviewing a number of candidates, recommended the appointment of Steven Esom as an additional independent Non-Executive Director. The current Directors seeking re-election at the Annual General Meeting will be Martin Davey and Bernard Hoggarth. Steven Esom who was appointed since the last Annual General Meeting will stand for election. Their biographical details on page 21 demonstrate the range of experience and skills which each brings to the benefit of the Company.

The terms of reference for the Nomination Committee are available from the Company Secretary.

The Chairman of the Nomination Committee will attend the Annual General Meeting to respond to any Shareholder questions that might be raised on the Committee's activities.

## Meetings attendance

Details of the number of meetings of, and members' attendance at, the Board, Audit, Remuneration and Nomination Committees during the year are set out in the table below:

| | Board | Audit Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|---|
| **No. of meetings** | **12** | **3** | **9** | **3** |
| M. Bottomley (from appointment – max 10) | 10 | - | - | - |
| D. Black (to resignation – nil) | - | - | - | - |
| A. Couch | 12 | - | - | - |
| S. Esom (from appointment – max 5/1/4/1) | 5 | 1 | 4 | 1 |
| M. Davey | 12 | - | - | 3 |
| B. Hoggarth | 12 | - | - | - |
| J. Lindop (to retirement – max 2) | 2 | - | - | - |
| P. Farnsworth | 12 | 3 | 9 | 3 |
| J. Worby | 11 | 3 | 9 | 3 |

All who were Directors at the time attended the Annual General Meeting.

## Shareholders

The views of Shareholders expressed during meetings with them are communicated by the Chairman to the Board as a whole, and through this process the Board's Executive and Non-Executive Directors are able to gain a sound understanding of the views and concerns of the major Shareholders. The Chairman discusses governance and strategy with major Shareholders from time to time. Other Directors are available to meet the Company's major Shareholders if requested. The Senior Independent Director is available to listen to the views of Shareholders, particularly if they have concerns which contact with the Chairman has failed to resolve, or for which such contact is inappropriate. Principles of corporate governance and voting guidelines issued by the Company's institutional Shareholders and their representative bodies are circulated to and considered by the Board. The Board also welcomes the attendance and questions from Shareholders at the Annual General Meeting which is also attended by the Chairmen of the Audit, Remuneration and Nominations Committees.

## Information pursuant to the Takeovers Directive

The Company has provided the information required under DTR 7.2.6 within the section headed "change of control" in the Director's report on page 27.

## Compliance with the Combined Code

The Directors consider that the Group has, during the year ended 31 March 2010, complied with the requirements of the Combined Code other than as set out below:

i) The company did not comply with Combined Code provision A.3.2 for eight months of the year as the number of independent Non-Executive Directors was less than half the Board. Since 12 November 2009 the Company believes it now complies.

ii) The Company did not comply, for eight months of the year, with Combined Code provisions B.2.1 and C.3.1 regarding the composition of the Audit and Remuneration Committees as there were less than three independent Non-Executive Directors. Since 12 November 2009 the Company believes it now complies.

**By order of the Board**

## Malcolm Windeatt
## Company Secretary

24 May 2010

# DIRECTORS' REMUNERATION REPORT

## INFORMATION NOT SUBJECT TO AUDIT

### Remuneration Committee

The Remuneration Committee comprises the Non-Executive Directors Patrick Farnsworth (Chairman of the Committee), John Worby and Steven Esom from 12 November 2009. The Executive Chairman attends the meetings in an advisory capacity as requested. The Committee determines the remuneration of the Company's Executive Directors and puts forward its recommendations for approval by the Board. The remuneration policy is reviewed and benchmarked by external consultants every two to three years; it is the Committee's intention to conduct a review during the next financial year. PricewaterhouseCoopers were appointed by the Remuneration Committee and have given advice during the year on share option awards. The remuneration of the Non-Executive Directors is determined by the Executive Directors and reflects the time, commitment and responsibility of their roles.

### Remuneration policy

The Group's policy is that the overall remuneration package offered should be sufficiently competitive to attract, retain and motivate high quality executives and to align the rewards of the Executives with the progress of the Group whilst giving consideration to salary levels in similar sized quoted companies in the sector and in the region. The remuneration package is in two parts; a non performance part represented by basic salary (including benefits) and, a significant performance related element in the form of a profit related bonus and share-based awards. The share-based awards are granted by the Remuneration Committee and only vest on the achievement of demanding targets aligned to Shareholder returns and earnings per share. The details of individual components of the remuneration package and service contracts are set out below:

**Basic salary and benefits**

The non performance related elements of remuneration which comprise basic salary, car allowance and benefits are reviewed annually and are effective from the 1 May. Benefits principally comprise medical insurance, personal tax advice and car benefit.

**Bonus scheme**

The bonus scheme in operation is based on the achievement of Group profit targets. The targets are set having regard to the Company's budget, historical performance and market outlook for the year. A small part of the bonus relates to the achievement of a target performance for the first half of the year where a fixed sum is paid with the remaining element based on a percentage of the results in excess of an annual target. The total bonus is capped at 150 per cent of basic salary. Non-Executive Directors do not participate in the Group's bonus scheme. Incentive payments and benefits are not pensionable.

**Share options and Long Term Incentive Plan**

The basic salary and the bonus scheme are intended as the most significant part of Directors' remuneration; in addition, executive share options and the Long Term Incentive Plan ('LTIP') can be proposed by the Remuneration Committee and are granted periodically to promote the involvement of senior management in the longer term success of the Group. Even though both option awards are seen as an important part of rewarding the employee the Remuneration Committee is focusing on using the LTIP rather than the executive option scheme.

Options can only be exercised if certain performance criteria are achieved by the Group. Under the LTIP half the shares granted are subject to an earnings per share ('EPS') target measured against average annual increases in the retail price index ('RPI') over a three year period and the other half to a total shareholder return ('TSR') target measured against a comparable group of food companies over a three year period. The comparison companies are Carrs Milling Industries plc, Dairy Crest Group plc, Devro plc, Glanbia plc, Greencore plc, Northern Foods plc, Robert Wiseman Dairies plc, Premier Foods plc and Uniq plc. The EPS target allows 25 per cent of the shares subject to the target to be issued at nil cost at an average annual outperformance of 3 per cent and 100 per cent of the shares at an average annual outperformance of 7 per cent with outperformance between 3 and 7 per cent rewarded pro rata. With the first three share awards, made in previous years, the TSR target allowed 50 per cent of the shares subject to the target to be issued at nil cost at the 50th percentile and 100 per cent at the 75th percentile with performance between the 50th and 75th percentiles rewarded pro-rata. For the LTIP issued in the year the TSR target was amended so that only 30% per cent of the shares subject to the target are to be issued at nil cost at the 50th percentile and 100 per cent at the 75th percentile with performance between the 50th and 75th percentiles rewarded pro-rata. Under the terms of the scheme an award to an individual cannot exceed 100% of that individual's annual salary except in exceptional circumstances when up to 200% of the annual salary is permitted. The Remuneration Committee, which decides whether performance conditions have been met, considers these to be the most appropriate measures of the long term performance of the Group.

The criteria for executive options is based on total shareholder return over a 3 year performance period and requires the Group to be in the top half of a basket of food companies quoted on the London Stock Exchange. The comparison companies are ABF plc, Carrs Milling Industries plc, Dairy Crest Group plc, Devro plc, Glanbia plc, Greencore plc, Northern Foods plc, Robert Wiseman Dairies plc, and Uniq plc

Directors may also apply for SAYE options on the same terms as all other employees.

**Pensions**

Executive Directors are members of the Group 'money-purchase' pension scheme. Employer contributions are determined by service contracts. In some cases there are payments of pension contributions in lieu of salary and in other cases there are payments of salary in lieu of pension contributions, both at the option of the individual.

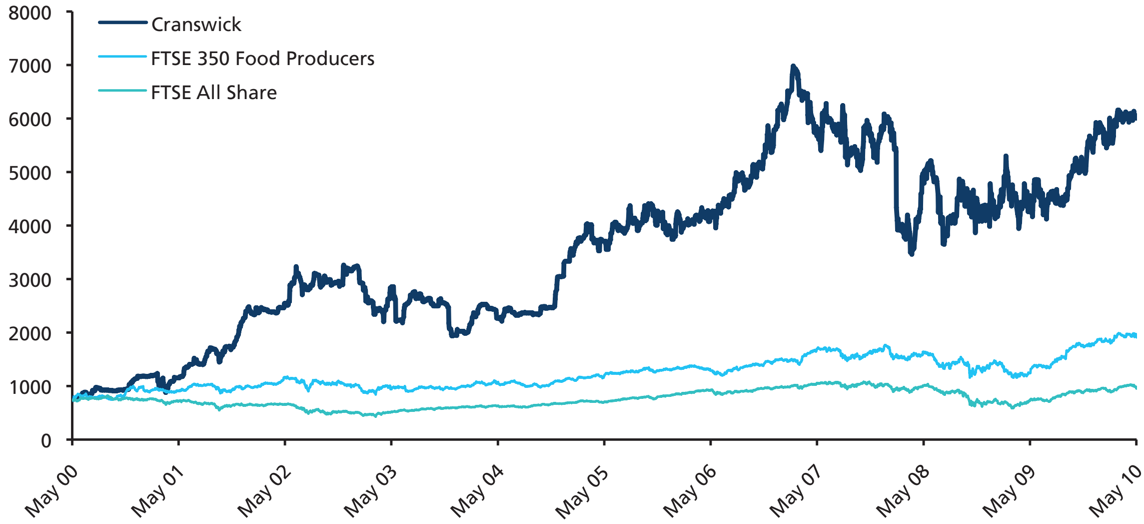
**Service contracts**

The service contracts for Martin Davey, Bernard Hoggarth and Derek Black (up to his resignation) include one year notice periods from 1 May 2006 except in the case of a takeover of the Company when the notice period is 2 years for the first six months following the take-over. These conditions were incorporated into new contracts several years ago, when the directors changed from contracts which had notice periods of up to three years. The Remuneration Committee's current policy is not to enter into employment contracts with any element of notice period in excess of one year. Accordingly, Adam Couch and John Lindop (up to his retirement) have one year rolling contracts commencing 1 May 2006. Mark Bottomley has a 1 year rolling contract which commenced on 1 June 2009. Two year appointment letters have been issued to Patrick Farnsworth and John Worby from 1 January 2010 and Steven Esom from 12 November 2009. The contracts for Martin Davey, Bernard Hoggarth, Derek Black (up to his resignation) and John Lindop (up to his retirement) have special provisions relating to liquidated damages requiring that the notice period stipulated in the contract will be paid in full. For the other contracts the Remuneration Committee will consider the circumstances of an early termination and determine compensation payments accordingly.

**Performance graph**

The graph below shows the percentage change (from a base of 100 in May 2000) in the total shareholder return (with dividends reinvested) for each of the last ten years on a holding of the Company's shares against the corresponding change in a hypothetical holding in the shares in the FTSE 350 Food Producers and Processors Price Index ("FTSE FPP") and the FTSE All Share Index ("FTSE All Share"). The FTSE FPP and the FTSE All Share were chosen as representative benchmarks of the sector and the market as a whole for the business.

*Source: Investec*



INFORMATION SUBJECT TO AUDIT

## Directors' remuneration

The remuneration of Directors for the year was as follows:

| | 2010 £'000 | 2009 £'000 |
|---|---|---|
| Salary and fees | **1,817** | 2,044 |
| Bonuses | **2,258** | 1,794 |
| Benefits | **20** | 9 |
| Payment in lieu of pension contribution | **77** | 77 |
| | **4,172** | 3,924 |
| Pension contribution | **345** | 509 |
| | **4,517** | 4,433 |
| Aggregate notional gains made by Directors on exercise of options | **562** | 18 |

## Individual Directors' remuneration, including pension contributions:

| | Salary and fees £'000 | Bonus £'000 | Other £'000 | Benefits £'000 | **Total 2010 £'000** | Total 2009 £'000 | **Pension 2010 £'000** | Pension 2009 £'000 |
|---|---|---|---|---|---|---|---|---|
| **Non-Executive Directors:** | | | | | | | | |
| S Esom *(from appointment)* | 12 | - | - | - | **12** | - | **-** | - |
| PW Farnsworth | 37 | - | - | - | **37** | 36 | **-** | - |
| JG Worby | 42 | - | - | - | **42** | 41 | **-** | - |
| **Executive Directors:** | | | | | | | | |
| DJ Black *(to resignation)* | 28 | - | - | - | **28** | 407 | **5** | 62 |
| JM Bottomley *(from appointment)* | 156 | 175 | - | 10 | **341** | - | **40** | - |
| AH Couch | 380 | 549 | - | 3 | **932** | 849 | **72** | 68 |
| MTP Davey | 623 | 826 | 77 | 3 | **1,529** | 1,152 | **120** | 114 |
| B Hoggarth | 484 | 705 | - | 4 | **1,193** | 946 | **93** | 95 |
| JD Lindop *(to retirement)* | 55 | 3 | - | - | **58** | 493 | **15** | 170 |

"Other" comprises payments in lieu of pension contribution – now ceased. Benefits principally comprise medical insurance, personal tax advice and car benefit.

The number of Directors who were active members of the money purchase pension scheme during the year was 6 (2009 - 5).

Martin Davey was a Non-Executive Director of Thornton's plc until his resignation on 5 December 2008. His fees in this capacity were paid to the Company; amounts receivable for the year ended 31 March 2010 were £nil (2009 - £32,250). John Lindop is a Non-Executive Director of Black Sheep Brewery plc. His fees in this capacity were paid to the Company up to the date of his retirement; amounts receivable for the year ended 31 March 2010 were £2,856 (2009 - £11,383).

## Share options

The Group operates an executive share option scheme and a long term incentive plan for senior executives, including Directors, and a savings related share option scheme which is available to all employees. The interests of the Directors in these schemes were as follows:

**Executive share option scheme**

| | At 1 April 2009 (number) | Granted in the year (number) | Exercised in the year (number) | Lapsed (number) | **At 31 March 2010 or resignation (number)** | Exercise price (pence) | Range of exercise dates |
|---|---|---|---|---|---|---|---|
| DJ Black | 50,000 | - | - | - | **50,000** | 601.0 | 4 July 2008/ 3 July 2015 |
| AH Couch | 50,000 | - | 50,000 | - | **-** | 601.0 | 4 July 2008/ 3 July 2015 |
| MTP Davey | 50,000 | - | 50,000 | - | **-** | 601.0 | 4 July 2008/ 3 July 2015 |
| B Hoggarth | 50,000 | - | 50,000 | - | **-** | 601.0 | 4 July 2008/ 3 July 2015 |
| JD Lindop | 50,000 | - | - | - | **50,000** | 601.0 | 4 July 2008/ 3 July 2015 |

The executive share options of each Director were exercisable subject to the attainment of performance criteria based on the total return to Shareholders during the 3 year performance period being in the top half of a basket of food companies quoted on the London Stock Exchange. The performance criteria relating to these options have been achieved and the options have been exercised.

The following directors exercised executive share options during the year:

| | Number | Date exercised | Exercise Price (pence) | Market Price (pence) | Notional Gain £'000 |
|---|---|---|---|---|---|
| AH Couch | 50,000 | 25 March 2010 | 601.0 | 794.7 | 97 |
| MTP Davey | 50,000 | 19 February 2010 | 601.0 | 766.1 | 83 |
| B Hoggarth | 50,000 | 16 December 2009 | 601.0 | 746.6 | 73 |

## Long term incentive plan

| | Year of award | At 1 April 2009 (number) | Granted in the year (number) | Exercised in the year (number) | Lapsed (number) | **At 31 March 2010 or resignation (number)** | Exercise price (pence) | Market price at grant (pence) |
|---|---|---|---|---|---|---|---|---|
| JM Bottomley | 2009 | - | 13,200 | - | - | **13,200** | Nil | 592.5 |
| DJ Black | 2006 | 25,000 | - | - | 10,039 | **14,961** | Nil | 755.5 |
| | 2007 | 25,000 | - | - | 13,992 | **11,008** | Nil | 847.5 |
| | 2008 | 25,000 | - | - | 16,125 | **8,875** | Nil | 632.0 |
| AH Couch | 2006 | 25,000 | - | 14,961 | 10,039 | **-** | Nil | 755.5 |
| | 2007 | 25,000 | - | - | - | **25,000** | Nil | 847.5 |
| | 2008 | 25,000 | - | - | - | **25,000** | Nil | 632.0 |
| | 2009 | - | 32,500 | - | - | **32,500** | Nil | 592.5 |
| MTP Davey | 2006 | 25,000 | - | 14,961 | 10,039 | **-** | Nil | 755.5 |
| | 2007 | 25,000 | - | - | - | **25,000** | Nil | 847.5 |
| | 2008 | 25,000 | - | - | - | **25,000** | Nil | 632.0 |
| | 2009 | - | 32,500 | - | - | **32,500** | Nil | 592.5 |
| B Hoggarth | 2006 | 25,000 | - | 14,961 | 10,039 | **-** | Nil | 755.5 |
| | 2007 | 25,000 | - | - | - | **25,000** | Nil | 847.5 |
| | 2008 | 25,000 | - | - | - | **25,000** | Nil | 632.0 |
| | 2009 | - | 32,500 | - | - | **32,500** | Nil | 592.5 |
| JD Lindop | 2006 | 25,000 | - | - | 10,039 | **14,961** | Nil | 755.5 |
| | 2007 | 25,000 | - | - | 13,018 | **11,982** | Nil | 847.5 |
| | 2008 | 25,000 | - | - | 14,600 | **10,400** | Nil | 632.0 |

Derek Black resigned on 24 April 2009 and John Lindop retired on 31 May 2009 and their holdings above are shown as at their leaving date.

The performance periods commence on 1 April in each year and conclude on 31 March three years later and are exercisable on the attainment of certain performance criteria detailed on pages 35 and 36. The range of exercise dates are 1 June 2010 to 19 August 2020.

A proportion of the options granted under the LTIP in 2007 were converted to restrictive share awards during the year. The awards remain subject to the same performance criteria and vesting conditions. The above holdings include Directors interests in restricted shares held under the LTIP.

The options granted in the year are exercisable between 1 June 2012 and 19 August 2020. The share price at the time of issue was 592.5p.

The following directors exercised LTIP share options during the year:

| | Number | Date exercised | Exercise Price (pence) | Market Price (pence) | Notional Gain £'000s |
|---|---|---|---|---|---|
| AH Couch | 14,961 | 18 September 2009 | Nil | 650.4 | 97 |
| MTP Davey | 14,961 | 19 February 2010 | Nil | 766.1 | 115 |
| B Hoggarth | 14,961 | 18 September 2009 | Nil | 650.4 | 97 |

## Savings related share option scheme

| | At 1 April 2009 (number) | Granted in the year (number) | Exercised in the year (number) | Lapsed (number) | **At 31 March 2010 or resignation (number)** | Weighted average excerise price (pence) | Range of exercise dates |
|---|---|---|---|---|---|---|---|
| DJ Black | 4,900 | - | - | - | **4,900** | 436 | 1 Mar 2010/ 1 Sept 2016 |
| AH Couch | 3,761 | - | - | - | **3,761** | 472 | 1 Mar 2013/ 1 Sept 2016 |
| MTP Davey | 2,025 | - | - | - | **2,025** | 474 | 1 Mar 2012/ 1 Sept 2012 |
| B Hoggarth | 2,025 | - | - | - | **2,025** | 474 | 1 Mar 2012/ 1 Sept 2012 |
| JD Lindop | 2,367 | - | - | - | **2,367** | 442 | 1 Mar 2010/ 1 Sept 2010 |

The Directors are eligible, as are other employees of the Group, to participate in the SAYE scheme, which by its nature does not have performance conditions.

No savings related share options were exercised by Executive Directors during the year.

## Market price of shares

The market price of the Company's shares at 31 March 2010 was 808.5 pence per share. The highest and lowest market prices during the year for each share option that was unexpired at the end of the year are as follows:

| | | Highest (pence) | Lowest (pence) |
|---|---|---|---|
| Options in issue throughout the year | | 820 | 569 |
| Options issued during the year: | - SAYE | 820 | 726 |
| | - LTIP | 820 | 589 |

## Director's Beneficial Interests (Unaudited)

| | **At 31 March 2010 Ordinary Shares** | At 31 March 2009 Ordinary Shares |
|---|---|---|
| AH Couch | **64,136** | 61,921 |
| MTP Davey | **200,426** | 200,426 |
| P Farnsworth | **1,161** | 1,121 |
| B Hoggarth | **112,388** | 108,388 |
| J Worby | **1,641** | 1,641 |

All the above interests are beneficial.

There have been no further changes to the above interests in the period from 1 April 2010 to 7 May 2010.

**On behalf of the Board**

**Patrick Farnsworth**
**Chairman of the Remuneration Committee**
24 May 2010

# CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Cranswick take its responsibilities to employees, customers, shareholders and the environment very seriously. The Company increasingly recognises that a balanced and committed approach to all aspects of Corporate Social Responsibility will bring benefits to each of the Company's stakeholders and will strengthen its business position and credentials to facilitate future sustainable growth and development.

## Workplace

The Group aims to recruit, train and retain employees who are valued for their contribution and able to fulfil their potential in meeting the business objectives of the Company. The Group companies each have their own strategies for retaining staff, including the provision of competitive terms and conditions, share options and a challenging and stimulating working environment.

The Company employs 4,138 permanent members of staff compared with 3,349 the previous year (excluding the discontinued pet division); the increase reflecting the acquisition of CCF Norfolk, in addition to the natural growth of the other sites as production levels increase. Agency personnel are used to supplement these levels at an average of around 40 per cent of permanent manning levels. Careful auditing of the supplying agencies is carried out to ensure adherence to best practice and to see that they are registered under the Gangmasters (Licensing) Act 2004.

The business takes the Health and Safety of its employees very seriously and is committed to high levels of training to ensure that all factories and processes remain safe and fulfilling places in which to work. Overall accident rates have shown a decrease over the past five years. An industry leading web based accident recording system allows the Company to be reactive to all incidents, monitoring and implementing actions to prevent recurrence.

Total Accidents per 100,000 employees


Training is provided both to all full time employees and any temporary or agency workers. All undertake a full Health and Safety induction course, together with training in Manual Handling, Fire, and First Aid regulations. The Company provides in-house courses including Accident Investigation, Risk Assessment, and Manual Handling and source other training requirements externally. In 2010/11, the Company will focus on Behavioural Safety Management training for Supervisors and Managers.

Health and Safety is reviewed regularly at Board level, with the Group Health & Safety Manager attending quarterly Board meetings to present his report to Directors. This report includes accident statistics, and pro-active and re-active ongoing projects to further enhance the standards of Health and Safety in the business.

Each site has a dedicated full time Health & Safety Co-ordinator, who is trained to NEBOSHH standards with staff appropriate to the size of the site. They take local responsibility for Health & Safety, carrying out such tasks as accident investigation, risk assessments, training, and safety tours under the guidance of two Group Health & Safety Co-ordinators who report to the Group Health and Safety Manager.

Sites are internally audited to ensure that standards are maintained and improved and the Group's insurers carry out their own external Health and Safety audits across all sites and confirm that there are excellent standards of Health & Safety in the Group.

The Group has committed to accredit all operating sites to meet the British Standard 18001 (Occupational Health and Safety Management Systems) and the Company is one year into this three year project, and on course to complete in 2011.

The Company is currently co-ordinating the business' approach to Socially Responsible Trading in order to provide a forum to share ethical knowledge and learning across the Group. All manufacturing sites are registered on the SEDEX scheme database to enable customers and suppliers to view the ethical standards and two of Cranswick's largest sites are already subject to independent ethical audit. It is the aim to extend this initiative to all sites.

## Environment

Environmental progress at site and Group level is measured and reported to the Board against performance benchmarks for energy efficiency, water usage, and landfill, relative to production tonnage.

Nine of the sites are covered by Climate Change Agreements, and they have consistently achieved the target reductions in carbon emissions per tonne of product since the scheme was introduced in 2001. The impending Carbon Reduction Commitment may have a small impact on the parts of the Group not caught by the existing Climate Change Levy.

Progress in reducing the carbon footprint has continued since the initial benchmarking in 2007. The overall reduction in the Group's defined footprint remains at 11 per cent over two years against a three year target of 15 per cent, falling from just over 0.36 tonnes of carbon per tonne of product to below 0.33 tonnes.

Further reductions in the Company's carbon footprint are anticipated through the replacement of older refrigeration systems, with more environmentally friendly systems, to increase efficiencies and reduce the potential for leakage. The Group is fully compliant with legislative constraints of the f-Gas Regulations and the phase out of older HCFC gases such as R22.

Landfill waste reduction has continued, and is down over 20 per cent since 2007 with recycling and the increased availability of waste to energy outlets. One site now has local access to an anaerobic digestion plant which will potentially reduce its landfill by between 70 and 80 per cent in the coming year.

The Group's process water usage continues to be reported under the FHC2020 agreement, with individual site initiatives to reduce usage. A reverse osmosis unit installed at the Milton Keynes site has reduced boiler water usage by 6 per cent with the further benefit of reducing corrosion in the cooker installation. Work to improve effluent quality through microbiological pre-treatment is ongoing at several sites to ensure that consent limits are met and to reduce treatment costs from water companies.

Four of the ten operating sites are now of sufficient size to require permits under the Integrated Pollution and Prevention Control regulation. Two of these sites are also fully certified under the international standard for environmental management, ISO14001. The Group's participation in the Carbon Disclosure Project (www.cdproject.net) and the Forest Footprint Disclosure Project continues.

The Cranswick plc website (www.cranswick.co.uk) has been expanded to cover the environmental initiatives that have been introduced under the '**Greenthinking**' banner. The Company encourages an open approach to these issues, and a question and answer element and contact facilities are provided to help interested parties find the appropriate detail at the desired level.

## Market place

As a food company Cranswick recognises its responsibilities to create and produce products which are safe, legal and wholesome. The food production sites are of modern design and well invested and operate to a high standard of food safety, process control, hygiene and housekeeping. All the sites are independently audited against the BRC Global Standard for Food Safety and have a consistent record of achieving Grade A compliance against this exacting standard which is recognised as a performance benchmark for the industry. The customer base is heavily focused on the major UK Grocery Retailers, Restaurant Groups and Food Service Companies. In addition products for further processing are supplied to other food producers. The sites and their food safety and quality management systems are constantly assessed by customers for compliance with their own specific policies.

The Company also has in place a robust system of internal audits to ensure that sites continue to operate in compliance with the standards expected by customers, third party auditing bodies and enforcement authorities, and this system is a key driver in maintaining the excellent record of compliance.

Key to all food claims is ensuring that the raw materials used (meat, ingredients and packaging) are traceable to source and where raw materials are identity preserved, the supplier will be challenged to prove their traceability systems to the Company's satisfaction. The approval of raw material suppliers is centrally controlled and involves independent third party audit or approval by the Group Technical Services team. Cranswick is committed to clear informative labelling which allows consumers to make informed purchasing decisions.

Cranswick's development has been focussed on the British pig market and the Group has always been a staunch supporter of British farming. The acquisition of CCF Norfolk has strengthened the Company's position in the British pig market. Producer groups and development initiatives with retailers, farmers and agricultural colleges are all aimed at improving business relationships throughout the pig production chain to bolster the market against increasing worldwide competition. Some 70 per cent of contracted pigs are sourced from within Yorkshire, Lincolnshire & Norfolk which are recognised as being some of the best pig breeding areas in the UK. Of these, approximately 40 per cent will be sourced from within 25 miles, 60 per cent within 40 miles, and 70 per cent within 50 miles of Cranswick's pork processing units in Hull and Norfolk. As a result of the acquisition of CCF Norfolk food miles are significantly reduced. Pigs which are transported from further afield are done so using transporters equipped with drinkers and air ventilators. All hauliers are members of independently audited and certified welfare assurance schemes.

The Group does not have a formal policy with regard to payment of suppliers, but it does agree individual payment terms appropriate to the supplier market sector and makes every endeavour to meet those agreements. Sites are separately managed and encouraged to source locally where it serves the Company's best interests.

Business continuity depends on the effective management of crisis situations. Each of the sites has a crisis management team in place which is centrally coordinated and guided by the Group's crisis management procedures. To ensure that these procedures remain robust, a simulated crisis event is staged annually utilising the expertise of a specialist crisis management company, with all outcomes and learning shared across the Group.

Food safety will always be of paramount importance, and well qualified and experienced technical teams are in place at site level which are centrally co-ordinated across the Group to share best practice and ensure that all products and processes meet the increasing demands of customers.

## Community

All sites are encouraged to participate in charitable activities including sponsored marathons, cycle rides and other fund raising activities. Overall, some 75 per cent of employees live within 10 miles of their place of work, so local involvement, particularly in rural locations, can be very beneficial.

When sites undergo development and expansion there is always a consideration of environmental and community impact. The redevelopment of the Hull pork processing facility has been designed to reduce odour and noise, and incorporates systems for additional heat recovery and reduced water usage. New roads have been put in to relieve traffic flow into the outskirts of the village and acres of trees have been planted to reduce the visual impact of the site. Improvements to the drainage systems at the Norfolk site have been made to reduce the danger of contamination to local water courses.

## Summary

The Group has made real progress towards all targets during the year. The '**Greenthinking**' programme and other Group wide initiatives are delivering tangible reductions in energy, water and waste usage which will benefit the environment and the local communities in which the Group operates. The Company will continue to focus on employee welfare through training programmes, Health and Safety initiatives and by ensuring that the facilities in which they operate are maintained to the highest standards.

**By order of the Board**

**Malcolm Windeatt**
**Company Secretary**

24 May 2010

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

## IN RELATION TO THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

The Directors confirm to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of Cranswick plc and the undertakings included in the consolidation taken as a whole; and
- the management report includes a fair review of the development and performance of the business and the position of Cranswick plc and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Under Company Law the directors must not approve the financial statements unless they are satisfied that they present fairly the financial position and the cash flows of the Company and of the Group and the financial performance of the Group for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- state that the Company and the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are reasonable and prudent.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**On behalf of the Board**

**Martin Davey**
**Chairman**

**Mark Bottomley**
**Finance Director**

24 May 2010

# REPORT OF THE AUDITORS

TO THE MEMBERS OF CRANSWICK plc

## Independent auditor's report to the members of Cranswick plc

We have audited the financial statements of Cranswick plc for the year ended 31 March 2010 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Comprehensive Income, the Group and Parent Company Statements of Cash Flows, the Group and Parent Company Statements of Changes in Equity and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 45, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2010 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 29 to 34 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 19, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 29 to 34 relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

**On behalf of Ernst & Young LLP, Statutory Auditor**

## Stuart Watson
## Senior Statutory Auditor

Hull, 24 May 2010

## Group income statement

for the year ended 31 March 2010

| | Notes | 2010 | 2009 | | |
|---|---|---|---|---|---|
| | | **Total** | Before exceptionals | Exceptionals | Total |
| | | **£'000** | £'000 | £'000 | £'000 |
| **Revenue** | *3* | **740,338** | 606,774 | - | 606,774 |
| Cost of sales | | **(643,535)** | (521,402) | - | (521,402) |
| **Gross profit** | | **96,803** | 85,372 | - | 85,372 |
| Operating expenses | | **(50,895)** | (46,984) | - | (46,984) |
| **Operating profit from continuing operations** | *3,4* | **45,908** | 38,388 | - | 38,388 |
| Finance revenue | *7* | **48** | 3 | - | 3 |
| Finance costs | *7* | **(2,204)** | (3,703) | - | (3,703) |
| **Profit from continuing operations before tax** | | **43,752** | 34,688 | - | 34,688 |
| Taxation | *8,5* | **(11,295)** | (9,951) | (6,063) | (16,014) |
| **Profit for the year from continuing operations** | | **32,457** | 24,737 | (6,063) | 18,674 |
| **Discontinued operations:** | | | | | |
| Profit for the year from discontinued operations | *9* | **125** | | | 314 |
| **Profit for the year attributable to owners of the parent** | | **32,582** | | | 18,988 |
| **Earnings per share (pence)** | | | | | |
| **From continuing operations:** | | | | | |
| Basic | *12* | **69.7p** | 53.7p | | 40.5p |
| Diluted | *12* | **69.6p** | 53.5p | | 40.4p |
| **On profit for the year:** | | | | | |
| Basic | *12* | **70.0p** | 55.5p | | 41.2p |
| Diluted | *12* | **69.8p** | 55.4p | | 41.1p |

## Group statement of comprehensive income

for the year ended 31 March 2010

| | Notes | 2010 £'000 | 2009 £'000 |
|---|---|---|---|
| **Profit for the year** | | **32,582** | 18,988 |
| **Other comprehensive income** | | | |
| Movement on hedging items: | | | |
| Gains arising in the year | *19* | **186** | 263 |
| Reclassification adjustment for gains included in the income statement | *19* | **(573)** | (1,029) |
| Exchange differences on retranslation of foreign operations | | **24** | (29) |
| Actuarial losses on defined benefit pension scheme | *26* | **(87)** | - |
| Deferred tax relating to components of other comprehensive income | | **132** | 213 |
| **Other comprehensive income for the year, net of tax** | | **(318)** | (582) |
| **Total comprehensive income for the year attributable to owners of the parent** | | **32,264** | 18,406 |

## Company statement of comprehensive income

**for the year ended 31 March 2010**

| | Notes | 2010 £'000 | 2009 £'000 |
|---|---|---|---|
| **Profit for the year** | | **13,705** | 9,385 |
| **Other comprehensive income** | | | |
| Movement on hedging items: | | | |
| (Losses)/gains arising in the year | *19* | **(77)** | 124 |
| Reclassification adjustment for gains included in the income statement | *19* | **(434)** | (70) |
| Deferred tax relating to components of other comprehensive income | | **143** | (15) |
| **Other comprehensive income for the year, net of tax** | | **(368)** | 39 |
| **Total comprehensive income for the year attributable to owners of the parent** | | **13,337** | 9,424 |

## Group balance sheet

at 31 March 2010

| | Notes | 2010 £'000 | 2009 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 13 | **128,739** | 117,756 |
| Property, plant and equipment | 14 | **106,137** | 91,688 |
| Financial assets | 19 | **1,500** | - |
| **Total non-current assets** | | **236,376** | 209,444 |
| **Current assets** | | | |
| Inventories | 17 | **35,960** | 28,464 |
| Trade and other receivables | 18 | **84,066** | 73,655 |
| Other financial assets | 19 | **263** | 263 |
| Cash and cash equivalents | 27 | **5,922** | 4,399 |
| **Total current assets** | | **126,211** | 106,781 |
| Assets held for sale | 9 | **-** | 20,387 |
| **Total assets** | | **362,587** | 336,612 |
| **Current liabilities** | | | |
| Trade and other payables | 20 | **(86,745)** | (75,273) |
| Other financial liabilities | 21 | **(12,487)** | (34,872) |
| Income tax payable | | **(3,509)** | (5,955) |
| Provisions | 22 | **(149)** | (334) |
| **Total current liabilities** | | **(102,890)** | (116,434) |
| **Non-current liabilities** | | | |
| Other payables | 20 | **(82)** | - |
| Other financial liabilities | 21 | **(49,866)** | (36,382) |
| Deferred tax liabilities | 8 | **(9,829)** | (11,557) |
| Provisions | 22 | **(982)** | (1,166) |
| Defined benefit pension scheme deficit | 26 | **(5,353)** | - |
| **Total non-current liabilities** | | **(66,112)** | (49,105) |
| Liabilities held for sale | 9 | **-** | (4,591) |
| **Total liabilities** | | **(169,002)** | (170,130) |
| **Net assets** | | **193,585** | 166,482 |
| **Equity** | | | |
| Called-up share capital | 24 | **4,733** | 4,646 |
| Share premium account | | **54,322** | 49,760 |
| Share-based payments | | **3,449** | 2,939 |
| Hedging and translation reserves | | **(124)** | 239 |
| Retained earnings | | **131,205** | 108,898 |
| **Equity attributable to members of the parent company** | | **193,585** | 166,482 |

**Martin Davey**
**Chairman**

**Mark Bottomley**
**Finance Director**

24 May 2010

## Company balance sheet

at 31 March 2010

| | Notes | 2010 £'000 | 2009 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **1,953** | 1,959 |
| Investments in subsidiary undertakings | 15 | **153,979** | 155,426 |
| Deferred tax assets | 8 | **220** | 23 |
| **Total non-current assets** | | **156,152** | 157,408 |
| **Current assets** | | | |
| Trade and other receivables | 18 | **15,423** | 22,167 |
| Other financial assets | 19 | **-** | 124 |
| Cash and cash equivalents | | **4,004** | - |
| **Total current assets** | | **19,427** | 22,291 |
| Non-current assets held for sale | 9 | **-** | 343 |
| **Total assets** | | **175,579** | 180,042 |
| **Current liabilities** | | | |
| Trade and other payables | 20 | **(38,084)** | (46,048) |
| Other financial liabilities | 21 | **(10,387)** | (28,290) |
| Income tax payable | | **(902)** | (216) |
| **Total current liabilities** | | **(49,373)** | (74,554) |
| **Non-current liabilities** | | | |
| Other financial liabilities | 21 | **(49,530)** | (36,382) |
| **Total liabilities** | | **(98,903)** | (110,936) |
| **Net assets** | | **76,676** | 69,106 |
| **Equity** | | | |
| Called-up share capital | 24 | **4,733** | 4,646 |
| Share premium account | | **54,322** | 49,760 |
| General reserve | | **4,000** | 4,000 |
| Merger reserve | | **1,806** | 1,806 |
| Share-based payments | | **638** | 568 |
| Hedging reserve | | **(387)** | 124 |
| Retained earnings | | **11,564** | 8,202 |
| **Equity attributable to members of the parent company** | | **76,676** | 69,106 |

**Martin Davey**
**Chairman**

**Mark Bottomley**
**Finance Director**

24 May 2010

## Group statement of cash flows

for the year ended 31 March 2010

| | Notes | 2010 £'000 | 2009 £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit for the year | | **32,582** | 18,988 |
| *Adjustments to reconcile Group profit for the year to net cash inflows from operating activities* | | | |
| Tax on discontinued operations | | **(95)** | (820) |
| Tax on continuing operations | | **11,295** | 16,014 |
| Net finance costs | | **2,166** | 3,971 |
| Depreciation and impairment of property, plant and equipment | | **11,852** | 13,859 |
| Share based payments | | **510** | 1,000 |
| Difference between pension contributions paid and amounts recognised in the income statement | | **(512)** | - |
| Release of government grants | | **(6)** | (7) |
| Profit on sale of property, plant and equipment | | **(189)** | (87) |
| Increase in inventories | | **(5,817)** | (3,966) |
| Increase in trade and other receivables | | **(1,954)** | (1,971) |
| Increase in assets held for sale | | **(2,589)** | - |
| (Decrease)/increase in trade and other payables | | **(1,356)** | 6,381 |
| Cash generated from operations | | **45,887** | 53,362 |
| Tax paid | | **(13,683)** | (8,602) |
| **Net cash from operating activities** | | **32,204** | 44,760 |
| | | | |
| **Cash flows from investing activities** | | | |
| Interest received | | **48** | 3 |
| Reimbursement of consideration paid in prior years | | **1,248** | - |
| Acquisition of subsidiaries | *16* | **(11,233)** | - |
| Purchase of property, plant and equipment | | **(20,294)** | (20,948) |
| Proceeds from sale of property, plant and equipment | | **376** | 258 |
| Proceeds from sale of discontinued operations | *9* | **18,067** | - |
| **Net cash used in investing activities** | | **(11,788)** | (20,687) |
| | | | |
| **Cash flows from financing activities** | | | |
| Interest paid | | **(2,670)** | (3,591) |
| Proceeds from issue of share capital | | **2,924** | 462 |
| Proceeds from borrowings | | **20,000** | 59,000 |
| Issue costs of long-term borrowings | | **-** | (1,280) |
| Repayment of borrowings | | **(19,762)** | (70,206) |
| Dividends paid | | **(8,808)** | (8,769) |
| Repayment of capital element of finance leases and hire purchase contracts | | **(120)** | - |
| **Net cash used in financing activities** | | **(8,436)** | (24,384) |
| | | | |
| Net increase/(decrease) in cash and cash equivalents | | **11,980** | (311) |
| Cash and cash equivalents at beginning of year | *27* | **(8,038)** | (7,698) |
| Effect of foreign exchange rates | | **24** | (29) |
| **Cash and cash equivalents at end of year** | *27* | **3,966** | (8,038) |

# Company statement of cash flows

for the year ended 31 March 2010

| | Notes | 2010 £'000 | 2009 £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit for the year | | **13,705** | 9,385 |
| *Adjustments to reconcile Company profit for the year to net cash inflows from operating activities* | | | |
| Dividends received | | **(8,808)** | (8,769) |
| Taxation | | **1,791** | 108 |
| Net finance costs | | **4,338** | 8,064 |
| Depreciation and impairment of property, plant and equipment | | **105** | 171 |
| Share based payments | | **70** | 251 |
| Loss on disposal of investments | | **199** | - |
| Decrease in trade and other receivables | | **7,392** | 22,445 |
| Decrease in trade and other payables | | **(7,676)** | (9,245) |
| Cash generated from operations | | **11,116** | 22,410 |
| Tax paid | | **(1,112)** | (349) |
| **Net cash from operating activities** | | **10,004** | 22,061 |
| **Cash flows from investing activities** | | | |
| Reimbursement of consideration paid in prior years | | **1,248** | - |
| Dividends received | | **8,808** | 8,769 |
| Purchase of property, plant and equipment | | **(97)** | (125) |
| Proceeds from sale of property, plant and equipment | | **343** | - |
| **Net cash generated in investing activities** | | **10,302** | 8,644 |
| **Cash flows from financing activities** | | | |
| Interest paid | | **(4,801)** | (7,592) |
| Proceeds from issue of share capital | | **2,924** | 462 |
| Proceeds from borrowings | | **20,000** | 59,000 |
| Issue costs of long-term borrowings | | **-** | (1,280) |
| Repayment of borrowings | | **(19,460)** | (70,171) |
| Dividends paid | | **(8,808)** | (8,769) |
| **Net cash used in financing activities** | | **(10,145)** | (28,350) |
| Net increase in cash and cash equivalents | | **10,161** | 2,355 |
| Cash and cash equivalents at beginning of year | *27* | **(6,157)** | (8,512) |
| **Cash and cash equivalents at end of year** | *27* | **4,004** | (6,157) |

## Group statement of changes in equity

for the year ended 31 March 2010

| | Share capital (Note 1) £'000 | Share premium (Note 2) £'000 | Share-based payments (Note 5) £'000 | Hedging reserve (Note 6) £'000 | Translation reserve (Note 7) £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|
| As at 1 April 2008 | 4,623 | 48,693 | 1,939 | 1,029 | 5 | 98,965 | 155,254 |
| Profit for the year | - | - | - | - | - | 18,988 | 18,988 |
| Other comprehensive income | - | - | - | (766) | (29) | 213 | (582) |
| Total comprehensive income | - | - | - | (766) | (29) | 19,201 | 18,406 |
| Share-based payments | - | - | 1,000 | - | - | - | 1,000 |
| Scrip dividend | 11 | 617 | - | - | - | - | 628 |
| Share options exercised | 12 | 450 | - | - | - | - | 462 |
| Dividends | - | - | - | - | - | (9,397) | (9,397) |
| Deferred tax relating to changes in equity | - | - | - | - | - | 90 | 90 |
| Corporation tax relating to changes in equity | - | - | - | - | - | 39 | 39 |
| At 31 March 2009 | 4,646 | 49,760 | 2,939 | 263 | (24) | 108,898 | 166,482 |
| Profit for the year | - | - | - | - | - | 32,582 | 32,582 |
| Other comprehensive income | - | - | - | (387) | 24 | 45 | (318) |
| Total comprehensive income | - | - | - | (387) | 24 | 32,627 | 32,264 |
| Share-based payments | - | - | 510 | - | - | - | 510 |
| Scrip dividend | 27 | 1,698 | - | - | - | - | 1,725 |
| Share options exercised | 60 | 2,864 | - | - | - | - | 2,924 |
| Dividends | - | - | - | - | - | (10,533) | (10,533) |
| Deferred tax relating to changes in equity | - | - | - | - | - | 78 | 78 |
| Corporation tax relating to changes in equity | - | - | - | - | - | 135 | 135 |
| **At 31 March 2010** | **4,733** | **54,322** | **3,449** | **(124)** | **-** | **131,205** | **193,585** |

**Notes:**

*1. Share capital*

The balance classified as share capital represents the nominal value of ordinary 10p shares issued.

*2. Share premium*

The balance classified as share premium includes the net proceeds in excess of nominal value on issue of the Company's equity share capital, comprising 10p ordinary shares.

*3. General reserve*

This reserve arose in 1993 when the High Court of Justice granted permission to reduce the Company's share premium account by £4,000,000 which was credited to a separate reserve named the general reserve.

*4. Merger reserve*

Where shares have been issued as consideration for acquisitions, the value of shares issued in excess of nominal value has been credited to the merger reserve rather than to the share premium account.

## Company statement of changes in equity

for the year ended 31 March 2010

| | Share capital (Note 1) £'000 | Share premium (Note 2) £'000 | General reserve (Note 3) £'000 | Merger reserve (Note 4) £'000 | Share-based payments (Note 5) £'000 | Hedging reserve (Note 6) £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|
| As at 1 April 2008 | 4,623 | 48,693 | 4,000 | 1,806 | 317 | 70 | 8,199 | 67,708 |
| Profit for the year | - | - | - | - | - | - | 9,385 | 9,385 |
| Other comprehensive income | - | - | - | - | - | 54 | (15) | 39 |
| Total comprehensive income | - | - | - | - | - | 54 | 9,370 | 9,424 |
| Share-based payments | - | - | - | - | 251 | - | - | 251 |
| Scrip dividend | 11 | 617 | - | - | - | - | - | 628 |
| Share options exercised | 12 | 450 | - | - | - | - | - | 462 |
| Dividends | - | - | - | - | - | - | (9,397) | (9,397) |
| Deferred tax relating to changes in equity | - | - | - | - | - | - | 30 | 30 |
| At 31 March 2009 | 4,646 | 49,760 | 4,000 | 1,806 | 568 | 124 | 8,202 | 69,106 |
| Profit for the year | - | - | - | - | - | - | 13,705 | 13,705 |
| Other comprehensive income | - | - | - | - | - | (511) | 143 | (368) |
| Total comprehensive income | - | - | - | - | - | (511) | 13,848 | 13,337 |
| Share-based payments | - | - | - | - | 70 | - | - | 70 |
| Scrip dividend | 27 | 1,698 | - | - | - | - | - | 1,725 |
| Share options exercised | 60 | 2,864 | - | - | - | - | - | 2,924 |
| Dividends | - | - | - | - | - | - | (10,533) | (10,533) |
| Deferred tax relating to changes in equity | - | - | - | - | - | - | 47 | 47 |
| **At 31 March 2010** | **4,733** | **54,322** | **4,000** | **1,806** | **638** | **(387)** | **11,564** | **76,676** |

*5. Share-based payments reserve*

This reserve records the fair value of share-based payments expensed in the income statement.

*6. Hedging reserve*

This reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

*7. Translation reserve*

This reserve records exchange differences arising from the translation of the financial statements of foreign subsidiaries.

# NOTES TO THE ACCOUNTS

## 1. Authorisation of financial statements and statement of compliance with IFRS

The Group and Company financial statements of Cranswick plc (the "Company") for the year ended 31 March 2010 were authorised for issue by the Board of Directors on 24 May 2010 and the balance sheets were signed on the Board's behalf by M Davey and JM Bottomley. Cranswick plc is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares are traded on the London Stock Exchange.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Company's financial statements have been prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. The principal accounting policies adopted by the Group and by the Company are set out in note 2.

The Company has taken advantage of the exemption provided under section 408 of the Companies Act 2006 not to publish its individual income statement and related notes.

## 2. Accounting policies

**Basis of preparation**

The financial statements of Cranswick plc, both consolidated and Company, have been prepared under IFRS as adopted by the European Union. A summary of the principal accounting policies, which have been consistently applied throughout the year and the preceding year, is as follows:

**Basis of consolidation**

The Group financial statements consolidate the financial statements of Cranswick plc and its subsidiaries. The results of undertakings acquired or sold are consolidated for the periods from the date of acquisition or up to the date of disposal. Acquisitions are accounted for under the purchase method of accounting.

**Judgements and key sources of estimation uncertainty**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

| | |
|---|---|
| **Share-based payments** | Note 25 – measurement of share-based payments |
| **Goodwill** | Note 13 – measurement of the recoverable amount of cash generating units containing goodwill |
| **Provisions** | Note 22 – judgements in relation to amounts provided |
| **Pensions** | Note 26 – Pension scheme actuarial assumptions |
| **Acquisitions** | Note 16 – acquisition fair values |

**Foreign currencies**

In the accounts of the Group's companies, individual transactions denominated in foreign currencies are translated into functional currency at the actual exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency at the rates ruling at the balance sheet date. Profits and losses on both individual foreign currency transactions during the year and monetary assets and liabilities are dealt with in the income statement.

On consolidation, the income statements of the overseas subsidiaries are translated at the average exchange rates for the year and the balance sheets at the exchange rates at the balance sheet date. The exchange differences arising as a result of translating income statements at weighted average rates and restating opening net assets at closing rates are taken to the translation reserve and the gain or loss on disposal of an overseas subsidiary is calculated after taking into account cumulative exchange gains or losses in respect of that subsidiary. Cumulative exchange differences at the date of transition to IFRS were deemed to be nil.

**Revenue**

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Group and the revenue, and any associated costs can be measured reliably. Revenue on the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer on despatch and represents the value of sales to customers net of discounts, similar allowances and estimates of returns and excludes value added tax.

**Intangible assets**

Goodwill is the excess of the fair value of the consideration paid for a business over the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is capitalised and subject to an impairment review, both annually and when there are indications that the carrying value may not be recoverable.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount is less than the carrying amount, an impairment loss is recognised. When an entity is disposed of, any goodwill associated with it is included in the carrying amount of the operation when determining the gain or loss on disposal except that goodwill arising on acquisitions prior to 31 March 2004 which was previously deducted from equity is not recycled through the income statement.

Intangible assets acquired as part of an acquisition of a business are capitalised at fair value separately from goodwill only if the fair value can be measured reliably on initial recognition and the future economic benefits are expected to flow to the Group.

**Taxation**

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date. Deferred tax is provided on temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

i) except where the deferred income tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss; and

ii) in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised:

i) except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

ii) in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement. Otherwise income tax is recognised in the income statement.

**Property, plant and equipment**

Property, plant and equipment are included at cost less accumulated depreciation and any provision for impairment.

Freehold land is not depreciated. Depreciation is charged on property, plant and equipment on the depreciable amount, being cost less the estimated residual value (based on prices prevailing at the balance sheet date) on a straight line basis over their estimated useful economic lives, or the estimated useful economic lives of their individual parts.

Useful economic lives are principally as follows:

| | |
|---|---|
| Freehold buildings | 50 years |
| Short leasehold improvements | Residue of lease |
| Plant and equipment | 5 - 11 years |
| Motor vehicles | 4 years |

The carrying value of property, plant and equipment is reviewed for impairment individually or at the cash generating unit level when events or changes in circumstances indicate that the carrying value may not be recoverable.

**Capitalised borrowing costs**

Borrowing costs incurred in financing the construction of qualifying assets such as property, plant and equipment are capitalised up to the date at which the relevant asset is substantially complete. Borrowing costs are calculated using the Group's weighted average cost of borrowing during the period of capitalisation. All other borrowing costs are expensed as incurred.

**Accounting for leases**

i) ***Finance leases***

Assets which are financed by leasing agreements that transfer substantially all the risks and rewards of ownership to the lessee (finance leases) are capitalised at the inception of the lease at fair value or, if lower, the present value of the minimum lease payments, in 'Property, plant and equipment' and the corresponding capital cost is shown as an obligation to the lessor in 'Borrowings'. Depreciation is charged to the income statement over the shorter of the estimated useful life and the term of the lease. The interest element of the rental obligations is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remainder of the capital amount outstanding.

ii) ***Operating leases***

Leases, which are not finance leases, are classified as operating leases. Lease payments are charged to the income statement on a straight line basis over the term of the lease.

**Government grants and contributions**

UK Regional Development Grants and grants receivable from the European Union and DEFRA in respect of property, plant and equipment are credited to deferred income and released to the income statement over the relevant depreciation period.

**Inventories**

Inventories are stated at the lower of cost (on a first in, first out basis) and net realisable value after making allowance for any obsolete or slow-moving items. In the case of finished goods, cost comprises direct materials, direct labour and an appropriate proportion of manufacturing fixed and variable overheads based on a normal level of activity.

**Cash and cash equivalents**

Cash equivalents are defined as cash at bank and in hand including short term deposits with original maturity within 3 months. For the purposes of the Group cash flow statement, cash and cash equivalents consist of cash and cash equivalents net of outstanding bank overdrafts.

**Financial instruments**

i) ***Debt instruments, including bank borrowings***

Debt instruments are initially recognised at the fair value of net proceeds received after the deduction of issue costs. Subsequently debt instruments are recognised at amortised cost using the effective interest method. Issue costs are charged to the income statement over the term of the debt at a constant rate on the balance sheet carrying amount under the effective interest method.

ii) ***Derivative financial instruments***

The Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its cash flow risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value.

The fair value of forward contracts is calculated by reference to current forward exchange rates for contracts with a similar maturity profile. The fair value of interest rate swaps is determined by reference to market values for similar instruments.

Where derivatives meet the hedging criteria under IAS 39 for cash flow hedges the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement. Gains or losses recognised in equity are transferred to the income statement in the same period in which the hedged item affects the net profit or loss.

For derivatives that do not qualify for hedge accounting under IAS 39, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the period.

**Financial assets – Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

**Employee benefits**

i) ***Pensions***

The group operates a defined benefit pension scheme for certain employees which requires contributions to be made to a separate trustee administered fund. The scheme was closed to new members on 30 June 2004.

The liability recognised in the balance sheet in respect of the defined benefit pension scheme is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in sterling, and that have terms to maturity approximating to the terms of the related pension liability.

The amounts charged to operating profit are any gains and losses on settlements and curtailments, and these are included as part of staff costs.

Past-service costs are recognised immediately in income, unless the changes to the pension scheme are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

The difference between the interest cost on plan liabilities and the expected return on plan assets is recognised in the income statement as other finance revenue or costs.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the statement of comprehensive income in the period in which they arise.

The Group also operates a number of defined contribution schemes for employees under which contributions are paid into schemes managed by major insurance companies. Contributions are calculated as a percentage of employees' earnings and obligations for contributions to the schemes are recognised as cost of sales or operating expenses in the income statement in the period in which they arise.

ii) ***Equity settled share based payments***

The Group operates a savings related share option scheme under which options have been granted to Group employees ('SAYE scheme'). In addition, the Group operates an Executive share option scheme and a Long Term Incentive Plan ('LTIP') for senior Executives. Share options issued are exercisable subject to the attainment of certain market based and non-market based performance criteria.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using the Black-Scholes option pricing model. In valuing equity-settled transactions, no account is taken of any service and performance (vesting conditions), other than performance conditions linked to the price of the shares of the Company (market conditions). Any other conditions which are required to be met in order for an employee to become fully entitled to an award are considered to be non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance or service conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated; representing the extent to which the vesting period has expired and management's best estimate of the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled (including when a non-vesting condition within the control of the entity or employee is not met), it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

On transition to IFRS, the Group did not apply the measurement rules of IFRS 2 to equity settled awards granted before 7 November 2002 or granted after that date and vested before 1 January 2005. However later modifications of such equity instruments are measured under IFRS 2.

**Non-current assets held for sale**

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated income statement for the reporting period, and for the comparable period of the previous year, income and expenses from discontinued operations are reported separately from continuing income and expenses down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the income statement.

Property, plant and equipment once classified as held for sale are not depreciated.

**Exceptional items**

Exceptional items are material items which derive from events or transactions that fall within the ordinary activities of the reporting entity and which individually or, if of a similar type, in aggregate need to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view.

**Dividends**

Dividends receivable by the Company are recognised in the income statement if they are declared, appropriately authorised and no longer at the discretion of the entity paying the dividend, prior to the balance sheet date. Dividends payable by the Company are recognised when declared and therefore final dividends proposed after the balance sheet date are not recognised as a liability at the balance sheet date. Dividends paid to Shareholders are shown as a movement in equity rather than on the face of the income statement.

**Investments**

Investments in subsidiaries are shown at cost less any provision for impairment.

**New standards and interpretations applied**

The following accounting standards and interpretations became effective for the current reporting period:

***International Accounting Standards (IAS/IFRS)***

| | |
|---|---|
| IFRS 2 | Share-based Payments: Vesting Conditions and Cancellations (Amendments) |
| IFRS 7 | Financial Instruments: Disclosures (Amendments) |
| IFRS 8 | Operating Segments |
| IAS 1 | Presentation of Financial Statements (Revised) |
| IAS 23 | Borrowing Costs (Revised) |
| ISA 27 | Consolidated and Separate Financial Statements (Amendments) |
| IAS 32 | Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations arising on Liquidation (Amendment) |

Improvements to IFRSs (May 2008)

***International Financial Reporting Interpretations Committee (IFRIC)***

| | |
|---|---|
| IFRIC 9 | Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement |
| IFRIC 13 | Customer Loyalty Programmes |
| IFRIC 15 | Agreements for the Construction of Real Estate |
| IFRIC 16 | Hedges of a Net Investment in a Foreign Operation |
| IFRIC 18 | Transfer of Assets from Customers |

The application of IAS 1 (Revised) 'Presentation of Financial Statements' has resulted in the Group presenting both a Group statement of comprehensive income (which replaces the Group statement of recognised income and expense) and a Group statement of changes in equity (which replaces the Group reconciliation of movements in equity) as primary statements. The Group statement of changes in equity presents all changes in equity, and the Group statement of comprehensive income presents all changes in financial position other than through transactions with owners. This presentation has been applied in these financial statements for the year ended 31 March 2010. Comparative information has also been presented so that it is also in conformity with the revised standard.

IFRS 8 'Operating Segments' replaces IAS 14, 'Segment Reporting' and requires the disclosure of segment information on the same basis as the management information provided to the chief operating decision maker. The adoption of this standard has not resulted in a change in the Group's reportable segments.

The application of the remaining standards and interpretations has not had a material effect on the net assets, results and disclosures of the Group.

**New standards and interpretations not applied**

The IASB and IFRIC have issued a number of new standards and interpretations with an effective date after the date of these financial statements. The Directors do not consider that the adoption of these standards and interpretations will have a material impact on the Group's and Company's financial statements in the period of initial application. The standards not applied are as follows:

| ***International Accounting Standards (IAS/IFRS)*** | | ***Effective date**** |
|---|---|---|
| IFRS 1 | First Time Adoption of International Reporting Standards | 1 July 2009 |
| IFRS 1 | Amendments to IFRS 1 – Additional Exemptions for First-time Adopters | 1 January 2010 |
| IFRS 1 | Amendments to IFRS 1 – Limited Exemption from Comparative IFRS 7 disclosures | 1 July 2010 |
| IFRS 2 | Amendments to IFRS 2 – Group Cash-settled Share-based Payment Transactions | 1 January 2010 |
| IFRS 3 | Business Combinations (Revised January 2008) | 1 July 2009 |
| IFRS 9 | Financial Instruments: Classification & Measurement | 1 January 2013 |
| IAS 24 | Related Party Disclosures (Revised) | 1 January 2011 |
| IAS 27 | Consolidated and Separate Financial Statements (Revised January 2008) | 1 July 2009 |
| IAS 32 | Amendment to IAS 32: Classification of Rights Issues | 1 February 2010 |
| IAS 39 | Eligible Hedged Items | 1 July 2009 |
| Improvements to IFRS (issued April 2009) | | Various dates |

| ***International Financial Reporting Interpretations Committee (IFRIC)*** | | ***Effective date*** |
|---|---|---|
| IFRIC 14 | Amendment: Prepayments of a Minimum Funding Requirement | 1 January 2011 |
| IFRIC 17 | Distributions of Non-Cash Assets to Owners | 1 July 2009 |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments | 1 July 2010 |

*The effective dates stated above are those given in the original IASB/IFRIC standards and interpretations. As the Group prepares its financial statements in accordance with IFRS as adopted by the European Union, the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU Endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsement restricts the Group's discretion to early adopt standards.

The Group has not early adopted the revised IFRS 3 and so will apply it prospectively to all business combinations on or after 1 April 2010. Whilst it is not possible to estimate the outcome of adoption, the key features of the revised IFRS 3 include a requirement for acquisition-related costs to be expensed and not included in the purchase price; and for contingent consideration to be recognised at fair value on the acquisition date (with subsequent changes recognised in the income statement and not as a change to goodwill). The standard also changes the treatment of minority interests with an option to recognise these at full fair value as at the acquisition date and a requirement for previously held minority interests to be fair valued as at the date control is obtained, with gains and losses recognised in the income statement.

IAS 27 revised is effective for annual periods beginning on or after 1 July 2009, in line with the revised IFRS 3. The revised standard no longer restricts the allocation to minority interest of losses incurred by a subsidiary to the amount of the minority equity investment in the subsidiary.

Any future partial disposal of equity interest in a subsidiary that does not result in a loss of control will be accounted for as an equity transaction and will have no impact on goodwill, nor will it give rise to any gain or loss. Where there is loss of control of a subsidiary, any retained interest will have to be remeasured to fair value, which will impact the gain or loss recognised on disposal.

The Directors do not anticipate that the adoption of the remaining standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

## 3. Business and geographical segments

The Group has adopted IFRS 8 'Operating Segments' with effect from 1 April 2009. IFRS 8 requires operating segments to be identified on the basis of the internal financial information reported to the Chief Operating Decision Maker ('CODM'). The Group's CODM is deemed to be the Board, which is primarily responsible for the allocation of resources to segments and the assessment of performance of the segments.

The CODM assesses profit performance using profit before taxation measured on a basis consistent with the disclosure in the Group accounts.

The Group continues to report on two reportable segments:

- Food – manufacture and supply of food products to UK grocery retailers, the food service sector and other food producers
- Pet – Sales into the pet and aquatic sector through the supply of bird and small animal food, marine fish and aquatic products. This segment was discontinued during the year ended 31 March 2009

All Group revenues are received for the provision of goods; no revenues are received in relation to the provision of services.

Previously, segments were determined and presented in accordance with IAS 14, 'Segment Reporting'. The adoption of IFRS 8 has not resulted in a change in the Group's reportable segments.

**Segment revenues and results**

| | **2010** | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Food Continuing £'000** | **Pet Discontinued £'000** | **Total £'000** | Food Continuing £'000 | Pet Discontinued £'000 | Total £'000 |
| **Revenue** | **740,338** | **3,620** | **743,958** | 606,774 | 46,491 | 653,265 |
| **Operating profit before central costs** | **50,882** | **40** | **50,922** | 43,481 | 2,309 | 45,790 |
| Central costs | **(4,974)** | **-** | **(4,974)** | (5,093) | - | (5,093) |
| **Operating profit** | **45,908** | **40** | **45,948** | 38,388 | 2,309 | 40,697 |
| Net finance costs | **(2,156)** | **(10)** | **(2,166)** | (3,700) | (271) | (3,971) |
| Fair value remeasurement loss | **-** | **-** | **-** | - | (2,544) | (2,544) |
| **Profit before tax (Segment results)** | **43,752** | **30** | **43,782** | 34,688 | (506) | 34,182 |
| Income taxes | **(11,295)** | **95** | **(11,200)** | (16,014) | 820 | (15,194) |
| **Profit for the year** | **32,457** | **125** | **32,582** | 18,674 | 314 | 18,988 |

There was no inter-segment turnover in either period.

**Assets and liabilities**

| | | | | | | |
|---|---|---|---|---|---|---|
| Non-current assets | **107,637** | **-** | **107,637** | 91,688 | - | 91,688 |
| Current assets | **126,211** | **-** | **126,211** | 101,804 | 20,387 | 122,191 |
| Other - Goodwill | **128,739** | **-** | **128,739** | 117,756 | - | 117,756 |
| Total segment assets | **362,587** | **-** | **362,587** | 311,248 | 20,387 | 331,635 |
| Unallocated assets | | | **-** | | | 4,977 |
| **Consolidated total assets** | | | **362,587** | | | 336,612 |
| Non-current liabilities | **66,112** | **-** | **66,112** | - | - | - |
| Current liabilities | **102,890** | **-** | **102,890** | 70,970 | 4,591 | 75,561 |
| Total segment liabilities | **169,002** | **-** | **169,002** | 70,970 | 4,591 | 75,561 |
| Unallocated liabilities | | | **-** | | | 94,569 |
| **Consolidated total liabilities** | | | **169,002** | | | 170,130 |

Unallocated assets and liabilities in the prior year comprised certain items of property, plant and equipment, loan notes, net debt and taxation balances which were managed on a Group basis. Subsequent to the sale of the Pet business all assets and liabilities have been allocated to the Food segment.

On 24 April 2009 the assets and liabilities of the Pet segment were disposed of as described in note 9. At 31 March 2009 the assets and liabilities of the Pet segment had been designated as held for sale and its operations treated as discontinued. The turnover and operating profit of the Pet segment for 2010 reflects its trading for the period prior to sale.

**Other segment information**

| | | **2010** | | | 2009 | |
|---|---|---|---|---|---|---|
| | **Food Continuing** | **Pet Discontinued** | **Total** | Food Continuing | Pet Discontinued | Total |
| | **£'000** | **£'000** | **£'000** | £'000 | £'000 | £'000 |
| Capital expenditure: | | | | | | |
| Property, plant and equipment | **20,457** | **-** | **20,457** | 20,136 | 1,069 | 21,205 |
| Depreciation | **11,852** | **-** | **11,852** | 10,930 | 718 | 11,648 |

In addition to the depreciation reported above, impairment losses of £nil (2009 - £2,211,000) were recognised on property plant and equipment in the Pet segment during the prior year on recognition as held for sale.

**Geographical segments**

The following table sets out sales by destination, regardless of where the goods were produced:

**Sales revenue by geographical market**

| | | **2010** | | | 2009 | |
|---|---|---|---|---|---|---|
| | **Food Continuing** | **Pet Discontinued** | **Total** | Food Continuing | Pet Discontinued | Total |
| | **£'000** | **£'000** | **£'000** | £'000 | £'000 | £'000 |
| UK | **723,901** | **3,620** | **727,521** | 599,639 | 43,640 | 643,279 |
| Continental Europe | **15,804** | **-** | **15,804** | 7,135 | 2,443 | 9,578 |
| Rest of World | **633** | **-** | **633** | - | 408 | 408 |
| | **740,338** | **3,620** | **743,958** | 606,774 | 46,491 | 653,265 |

The following table sets out the geographical location of the Group's non-current assets:

**Carrying amount of segment non-current assets**

| | | **2010** | | | 2009 | |
|---|---|---|---|---|---|---|
| | **Food Continuing** | **Pet Discontinued** | **Total** | Food Continuing | Pet Discontinued | Total |
| | **£'000** | **£'000** | **£'000** | £'000 | £'000 | £'000 |
| UK | **236,376** | **-** | **236,376** | 209,444 | - | 209,444 |

**Customer concentration**

The Group has three customers within the continuing Food segment which individually account for greater than 10 per cent of the Group's total net revenue. These customers account for 31 per cent, 20 per cent and 11 per cent respectively. In the prior year, these same three customers accounted for 32 per cent, 16 per cent and 12 per cent.

## 4. Group operating profit

This is stated after charging/(crediting):

| | 2010 Continuing £'000 | 2010 Discontinued £'000 | 2010 Total £'000 | 2009 Continuing £'000 | 2009 Discontinued £'000 | 2009 Total £'000 |
|---|---|---|---|---|---|---|
| Operating costs: | | | | | | |
| Selling and distribution | **29,000** | **162** | **29,162** | 25,979 | 2,700 | 28,679 |
| Administration | **21,895** | **452** | **22,347** | 21,005 | 5,981 | 26,986 |
| | **50,895** | **614** | **51,509** | 46,984 | 8,681 | 55,665 |
| Depreciation of property, plant and equipment | **11,852** | **-** | **11,852** | 10,930 | 718 | 11,648 |
| Impairment of property plant and equipment | **-** | **-** | **-** | 119 | 2,092 | 2,211 |
| Release of government grants | **(6)** | **-** | **(6)** | (7) | - | (7) |
| Operating lease payments – minimum lease payments | **4,876** | **16** | **4,892** | 4,717 | 190 | 4,907 |
| Net foreign currency differences | **(203)** | **-** | **(203)** | 521 | 402 | 923 |
| Cost of inventories recognised as an expense | **494,507** | **2,752** | **497,259** | 475,070 | 31,391 | 506,461 |
| Increase in provision for inventories | **384** | **-** | **384** | 177 | 62 | 239 |
| Audit of these financial statements* | **152** | **-** | **152** | 128 | 17 | 145 |

** £25,000 relates to the Company and consolidation (2009 - £25,000) and £127,000 (2009 - £120,000) relates to audit of the financial statements of subsidiaries.*

In addition, payments to Ernst & Young LLP for non audit services amounted to £450,000 (2009 - £85,000) of which £2,000 related to an audit related service (2009 – £4,000), £374,000 (2009 - £15,000) related to due diligence services and £74,000 (2009 - £66,000) to taxation.

Fees paid to Ernst & Young LLP for non-audit services by the Company itself are not disclosed in the individual accounts of Cranswick plc because Group financial statements are prepared which are required to disclose such fees on a consolidated basis.

## 5. Exceptional items

Non-recurring expense during the year was as follows:

| | 2010 Continuing £'000 | 2010 Discontinued £'000 | 2010 Total £'000 | 2009 Continuing £'000 | 2009 Discontinued £'000 | 2009 Total £'000 |
|---|---|---|---|---|---|---|
| *Recognised below operating profit* | | | | | | |
| Deferred tax on abolition of Industrial Buildings Allowances | **-** | **-** | **-** | (6,063) | (541) | (6,604) |
| Cash flow impact of exceptionals | **-** | **-** | **-** | - | - | - |

## 6. Employees

| Group | 2010 Continuing £'000 | 2010 Discontinued £'000 | 2010 Total £'000 | 2009 Continuing £'000 | 2009 Discontinued £'000 | 2009 Total £'000 |
|---|---|---|---|---|---|---|
| Staff costs: | | | | | | |
| Wages and salaries | **89,899** | **446** | **90,345** | 69,199 | 4,769 | 73,968 |
| Social security costs | **8,272** | **45** | **8,317** | 6,370 | 447 | 6,817 |
| Other pension costs | **1,427** | **10** | **1,437** | 1,364 | 70 | 1,434 |
| | **99,598** | **501** | **100,099** | 76,933 | 5,286 | 82,219 |

Included within wages and salaries is a total expense for share-based payments of £510,000, of which a credit of £13,000 related to discontinued operations (2009 - £1,000,000, of which a charge of £143,000 related to discontinued operations) all of which arises from transactions accounted for as equity-settled share-based payment transactions.

The average monthly number of employees during the year was:

| Group | 2010 Continuing Number | 2010 Discontinued Number | 2010 Total Number | 2009 Continuing Number | 2009 Discontinued Number | 2009 Total Number |
|---|---|---|---|---|---|---|
| Production | **3,787** | **10** | **3,797** | 2,988 | 114 | 3,102 |
| Selling and distribution | **179** | **4** | **183** | 193 | 43 | 236 |
| Administration | **172** | **3** | **175** | 168 | 35 | 203 |
| | **4,138** | **17** | **4,155** | 3,349 | 192 | 3,541 |

The Group and Company consider the Directors to be the Key Management Personnel. Details of each Director's remuneration, pension contributions and share options are detailed in the Directors' Remuneration Report on pages 35 to 40. The employee costs shown above include the following remuneration in respect of Directors of the Company:

| Group and Company | 2010 Continuing £'000 | 2010 Discontinued £'000 | 2010 Total £'000 | 2009 Continuing £'000 | 2009 Discontinued £'000 | 2009 Total £'000 |
|---|---|---|---|---|---|---|
| Directors' remuneration | **4,144** | **28** | **4,172** | 3,517 | 407 | 3,924 |
| Pension contribution | **340** | **5** | **345** | 447 | 62 | 509 |
| | **4,484** | **33** | **4,517** | 3,964 | 469 | 4,433 |
| Aggregate gains made by Directors on exercise of share options | **562** | **-** | **562** | 18 | - | 18 |
| No. of directors receiving pension contributions under money purchase schemes | **5** | **1** | **6** | 4 | 1 | 5 |

## 7. Finance revenue and costs

| | 2010 Continuing £'000 | 2010 Discontinued £'000 | 2010 Total £'000 | 2009 Continuing £'000 | 2009 Discontinued £'000 | 2009 Total £'000 |
|---|---|---|---|---|---|---|
| **Finance revenue** | | | | | | |
| Bank interest received | **3** | **-** | **3** | 3 | - | 3 |
| Finance revenue from non-current financial assets | **45** | **-** | **45** | - | - | - |
| | **48** | **-** | **48** | 3 | - | 3 |
| **Finance costs** | | | | | | |
| Loan note interest paid | **1** | **-** | **1** | 27 | - | 27 |
| Bank interest paid and similar charges | **1,933** | **10** | **1,943** | 3,642 | 271 | 3,913 |
| Total interest expense for financial liabilities not at fair value through profit or loss | **1,934** | **10** | **1,944** | 3,669 | 271 | 3,940 |
| Net finance cost on defined benefit pension deficit | **218** | **-** | **218** | - | - | - |
| Finance charge payable under finance leases and hire purchase contracts | **28** | **-** | **28** | - | - | - |
| Movement in discount on provisions | **24** | **-** | **24** | 34 | - | 34 |
| **Total finance costs** | **2,204** | **10** | **2,214** | 3,703 | 271 | 3,974 |

The interest relates to financial assets and liabilities carried at amortised cost together with the impact of interest rate swaps.

## 8. Taxation

**a) Analysis of tax charge in the year**

| Tax charge based on the profit for the year: | **2010** | 2009 |
|---|---|---|
| | **£'000** | £'000 |
| UK corporation tax: | | |
| UK corporation tax on profits of the year | **11,391** | 11,112 |
| Adjustments in respect of previous years | **(19)** | (314) |
| Total current tax | **11,372** | 10,798 |
| | | |
| UK deferred tax: | | |
| Origination and reversal of temporary differences | **739** | 3,956 |
| Adjustments in respect of previous years | **(911)** | 440 |
| Total deferred tax | **(172)** | 4,396 |
| | | |
| **Tax on profit on ordinary activities** | **11,200** | 15,194 |

The tax charge in the income statement is disclosed as follows:

| | **2010** | 2009 |
|---|---|---|
| | **£'000** | £'000 |
| Income tax expense on continuing operations | **11,295** | 16,014 |
| Income tax credit on discontinued operations | **(95)** | (820) |
| | **11,200** | 15,194 |

| Tax relating to items charged or credited directly to equity: | **2010** | 2009 |
|---|---|---|
| | **£'000** | £'000 |
| **Group** | | |
| *Recognised in Group statement of comprehensive income* | | |
| Deferred tax on revaluation of cash flow hedges | **(108)** | (213) |
| Deferred tax on actuarial losses on defined benefit pension scheme | **(24)** | - |
| | **(132)** | (213) |
| *Recognised in Group statement of changes in equity* | | |
| Deferred tax on share-based payments | **(78)** | (90) |
| Corporation tax credit on share options exercised | **(135)** | (39) |
| | **(213)** | (129) |
| | | |
| **Total tax credit recognised directly in equity** | **(345)** | (342) |

| | **2010** | 2009 |
|---|---|---|
| | **£'000** | £'000 |
| **Company** | | |
| *Recognised in Company statement of comprehensive income* | | |
| Deferred tax on revaluation of cash flow hedges | **(143)** | 15 |
| *Recognised in Company statement of changes in equity* | | |
| Deferred tax on share-based payments | **(47)** | (30) |
| **Total tax credit recognised directly in equity** | **(190)** | (15) |

### b) Factors affecting tax charge for the period

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The differences are explained below:

| | **2010** | 2009 |
|---|---|---|
| | **£'000** | £'000 |
| Profit on ordinary activities before tax | **43,782** | 34,182 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28 per cent (2009 - 28 per cent) | **12,259** | 9,571 |
| Effect of: | | |
| Disallowed expenses | **550** | 145 |
| Impairment of assets held for resale | **-** | 619 |
| Release of deferred tax on discontinued operations | **-** | (872) |
| Release of deferred tax on change of tax base | **-** | (456) |
| Industrial buildings allowances | **-** | 6,004 |
| Share-based payment deduction | **(679)** | (94) |
| Other | **-** | 151 |
| Adjustments in respect of prior years | **(930)** | 126 |
| **Total tax charge for the year** | **11,200** | 15,194 |

### c) Deferred tax

| **Group** | **2010** | 2009 |
|---|---|---|
| The deferred tax included in the balance sheet is as follows: | **£'000** | £'000 |
| **Deferred tax liability in the balance sheet** | | |
| Accelerated capital allowances | **11,804** | 10,883 |
| Rollover and holdover relief | **129** | 811 |
| Other temporary differences | **(219)** | 326 |
| Share-based payments | **(386)** | (463) |
| Deferred tax on defined benefit pension scheme | **(1,499)** | - |
| **Deferred tax liability** | **9,829** | 11,557 |

| | **2010** | 2009 |
|---|---|---|
| The deferred tax included in the income statement is as follows: | **£'000** | £'000 |
| **Deferred tax in the income statement** | | |
| Accelerated capital allowances | **284** | (935) |
| Share-based payments | **155** | (114) |
| Rollover relief | **(682)** | (122) |
| Industrial buildings allowances | **-** | 6,004 |
| Deferred tax on defined benefit pension scheme | **143** | - |
| Other temporary differences | **(72)** | (437) |
| **Deferred tax (credit)/expense** | **(172)** | 4,396 |

**Company**

| The deferred tax included in the balance sheet is as follows: | **2010 £'000** | 2009 £'000 |
|---|---|---|
| **Deferred tax asset in the balance sheet** | | |
| Accelerated capital allowances | **182** | 32 |
| Rollover relief | **56** | 56 |
| Other temporary differences | **(281)** | 36 |
| Share-based payments | **(177)** | (147) |
| **Deferred tax asset** | **(220)** | (23) |

**d) Temporary differences associated with Group investments**

At 31 March 2010 no deferred tax liability has been recognised (2009 - £nil) in respect of any taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group can control the timing of any such payments. There are no income tax consequences to the Group in relation to dividends paid to Shareholders.

## 9. Sale of a business (discontinued operations)

On 24 April 2009, the Group sold the trade and certain assets and liabilities of the Group's pet division to a management buyout team. Cranswick plc has retained a 5.5 per cent share in the business. The Pet Division manufactured and sold bird food and also imported and sold tropical marine fish and related products. The initial proceeds of the disposal of £17.0 million, plus a subsequent working capital adjustment of £1.4 million, were received in cash. As at 31 March 2009 the assets and liabilities of the pet division, which were later disposed, were classified as held for sale and carried at their fair value; with the loss on reclassification to held for sale being recognised in the income statement in that period. In accordance with IFRS 5 the results of the pet division to the date of sale have been treated as discontinued and shown as a single line item at the foot of the income statement and the prior year comparatives have been similarly disclosed.

The results of the pet division are presented below:

| | **2010 £'000** | 2009 £'000 |
|---|---|---|
| **Revenue** | **3,620** | 46,491 |
| Expenses | **(3,580)** | (44,182) |
| **Operating profit** | **40** | 2,309 |
| Finance cost | **(10)** | (271) |
| Loss recognised on remeasurement to fair value | **-** | (2, 544) |
| **Profit/(loss) before tax from discontinued operations** | **30** | (506) |
| Tax credit | **95** | 820 |
| **Profit for the year from discontinued operations** | **125** | 314 |
| | | |
| The tax credit is analysed as follows: | | |
| On profit on ordinary activities for the period | **95** | (607) |
| Exceptional charge on abolition of IBAs | **-** | (541) |
| On reclassification to assets held for resale | **-** | 1,968 |
| | **95** | 820 |

The net assets of the Pet Division which were disposed were as follows:

| | £'000 |
|---|---|
| Net assets disposed of: | |
| Property, plant and equipment | **8,210** |
| Inventories | **6,447** |
| Trade and other receivables | **6,524** |
| Trade and other payables | **(2,796)** |
| | **18,385** |
| | |
| Total consideration satisfied by cash | **18,385** |
| Costs associated with disposal, settled in cash | **(318)** |
| Net cash inflow arising on disposal | **18,067** |

The cash flow impact of the exceptional charge on abolition of Industrial Building Allowances in the year ended 31 March 2009 was £nil.

For the year ended 31 March 2009, on recognition of the Pet Division as discontinued, £20,387,000 of assets (£343,000 of which were included in the balance sheet of the Company) and £4,591,000 of liabilities were classified as held for resale.

The net cash flows attributable to the discontinued Pet Division, excluding disposal cash flows were as follows:

| | **2010** | 2009 |
|---|---|---|
| | **£'000** | £'000 |
| Operating cash flows | **(448)** | 2,576 |
| Investing cash flows | **-** | (1,068) |
| Financing cash flows | **(10)** | (562) |
| **Net (outflow)/inflow** | **(458)** | 946 |

Profit per share from discontinued operations was as follows:

| | | |
|---|---|---|
| Basic | **0.3p** | 0.7p |
| Diluted | **0.2p** | 0.7p |

## 10. Profit attributable to members

Of the profit attributable to members, the sum of £13,705,000 (2009 - £9,385,000) has been dealt with in the accounts of Cranswick plc.

## 11. Equity dividends

| | 2010 | 2009 |
|---|---|---|
| | **£'000** | £'000 |
| Declared and paid during the year: | | |
| Final dividend for 2009 – 14.7p per share (2008 – 13.4p) | **6,802** | 6,169 |
| Interim dividend for 2010 – 8.0p per share (2009 – 7.0p) | **3,731** | 3,228 |
| **Dividends paid** | **10,533** | 9,397 |
| | | |
| **Proposed for approval of Shareholders at the Annual General Meeting on 26 July 2010:** | | |
| Final dividend for 2010 – 17.0p (2009 – 14.7p) | **8,016** | 6,801 |

## 12. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to members of the parent company of £32,582,000 (2009 - £18,988,000) by the weighted average number of shares outstanding during the year. In calculating diluted earnings per share amounts, the weighted average number of shares is adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

The Group discloses in its consolidated income statement as exceptional items those material items which individually or, if of a similar type, in aggregate need to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view. Accordingly, basic and diluted earnings per share are also presented on this basis using the weighted average number of ordinary shares for both basic and diluted amounts as per the table below:

| | 2010 | 2009 |
|---|---|---|
| | **Thousands** | Thousands |
| Basic weighted average number of shares | **46,534** | 46,099 |
| Dilutive potential ordinary shares – share options | **112** | 127 |
| | **46,646** | 46,226 |

Basic weighted average number of shares for 2010 excludes 176,581 shares (2009 – 195,000 shares) held during the year by the Cranswick plc Employee Benefit Trust.

## 13. Intangible fixed assets

| **Group** | Goodwill |
|---|---|
| | £'000 |
| **Cost** | |
| At 31 March 2008 and 31 March 2009 | 117,756 |
| Acquisition of subsidiary undertakings | 12,231 |
| Reimbursement of consideration paid in prior years | (1,248) |
| **At 31 March 2010** | **128,739** |
| | |
| **Impairments as at 31 March 2008, 2009 and 2010** | - |
| | |
| **Net book value** | |
| Net book amount at 31 March 2009 | 117,756 |
| **Net book amount at 31 March 2010** | **128,739** |

On 24 June 2009, the Group acquired 100% of the issued share capital of Bowes of Norfolk Limited. Goodwill on acquisition amounted to £12,231,000. Further details of the acquisition are disclosed in note 16.

During the year, the Company received a reimbursement of consideration of £1,248,000 from the vendor in relation to an acquisition in a prior year. The reimbursement was an agreed adjustment in respect of the total amount payable.

The Group has no other intangible assets.

Goodwill is subject to annual impairment testing. Goodwill acquired through business combinations has been allocated for impairment testing purposes to the following principal cash-generating units:

| **Cash generating unit** | **2010** | 2009 |
|---|---|---|
| | **£'000** | £'000 |
| Fresh Pork | **12,231** | - |
| Cooked meats | **85,655** | 86,903 |
| Sandwiches | **16,526** | 16,526 |
| Continental Fine Foods | **10,968** | 10,968 |
| Other | **3,359** | 3,359 |
| | **128,739** | 117,756 |

**Assumptions used**

The recoverable amount for each cash generating unit has been determined based on value in use calculations using annual budgets for each business for the following year, approved by the Board of Directors, and cash flow projections for the next four years. Forecast replacement capital expenditure is included from budgets and thereafter capital is assumed to represent 100 per cent of depreciation.

Subsequent cash flows are forecast to grow in line with an assumed long-term industry growth rate of between 3 and 5 per cent derived from third party market information, including K World Panel data.

A discount rate of 9.9 per cent has been used (2009 - 9.3 per cent) being management's estimate of the Group's weighted average cost of capital.

The calculation is most sensitive to the following assumptions:

- Sales volumes
- Gross margin
- Discount rate

Sales volumes are influenced by the growth of the underlying food segment, the market shares of our customers, selling prices, and the quality of our products and service. Historical volumes are used as the base and adjusted over the projection period in line with current growth rates.

Gross margin depends upon average selling prices, the cost of raw materials and changes in the cost of production overheads. Historical margins are used as the base, adjusted for management's expectations derived from experience and with reference to budget forecasts.

All calculations of this nature are sensitive to the discount rate used. Management's estimate of the Group's weighted average cost of capital has been used for each cash generating unit.

Management believes that currently the assumptions used are unlikely to change to an extent which would reduce value in use below the value of the recoverable amount. Assumptions and projections are updated on an annual basis.

## 14. Property, plant and equipment

| Group | Freehold land and buildings | Leasehold improvements | Plant, equipment and vehicles | Assets in the course of construction | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Cost** | | | | | |
| At 31 March 2008 | 34,465 | 16,860 | 102,402 | 1,698 | 155,425 |
| Additions | 8,347 | 95 | 7,491 | 5,272 | 21,205 |
| Transfers between categories | - | - | 1,698 | (1,698) | - |
| Transfers to assets held for resale | (5,632) | (535) | (8,108) | - | (14,275) |
| Disposals | - | - | (1,103) | - | (1,103) |
| At 31 March 2009 | 37,180 | 16,420 | 102,380 | 5,272 | 161,252 |
| Additions | 697 | 335 | 12,422 | 7,003 | 20,457 |
| On acquisition | 4,120 | - | 1,911 | - | 6,031 |
| Disposals | (37) | (1,073) | (4,450) | - | (5,560) |
| **At 31 March 2010** | **41,960** | **15,682** | **112,263** | **12,275** | **182,180** |
| **Depreciation** | | | | | |
| At 31 March 2008 | 2,361 | 7,809 | 52,534 | - | 62,704 |
| Charge for the year | 472 | 864 | 10,312 | - | 11,648 |
| Transfers to assets held for resale | (2,047) | (535) | (3,483) | - | (6,065) |
| Impairment loss | 1,567 | 477 | 167 | - | 2,211 |
| Relating to disposals | - | - | (934) | - | (934) |
| At 31 March 2009 | 2,353 | 8,615 | 58,596 | - | 69,564 |
| Charge for the year | 779 | 870 | 10,203 | - | 11,852 |
| Relating to disposals | - | (1,073) | (4,300) | - | (5,373) |
| **At 31 March 2010** | **3,132** | **8,412** | **64,499** | **-** | **76,043** |
| **Net book amounts** | | | | | |
| At 31 March 2008 | 32,104 | 9,051 | 49,868 | 1,698 | 92,721 |
| At 31 March 2009 | 34,827 | 7,805 | 43,784 | 5,272 | 91,688 |
| **At 31 March 2010** | **38,828** | **7,270** | **47,764** | **12,275** | **106,137** |

Included in freehold land and buildings is land with a cost of £5,418,000 (2009 - £3,198,000) which is not depreciated relating to the Group and £795,000 (2009 - £795,000) relating to the Company. The cost of freehold land and buildings includes £935,000 (2009 - £935,000) in respect of capitalised interest. The depreciation charge for the year for plant, equipment and vehicles includes £154,000 (2009: £nil) in respect of assets held under finance leases and hire purchase contracts.

The impairment loss in the prior year relates to the write down of the fixed assets of the pet division to their fair value on recognition as held for sale.

| Company | Freehold land and buildings £'000 | Plant, equipment and vehicles £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 31 March 2008 | 2,431 | 110 | 2,541 |
| Additions | - | 125 | 125 |
| Transfers to assets held for resale | (475) | - | (475) |
| At 31 March 2009 | 1,956 | 235 | 2,191 |
| Additions | - | 64 | 64 |
| Transfers from other Group companies | - | 42 | 42 |
| **At 31 March 2010** | **1,956** | **341** | **2,297** |
| | | | |
| **Depreciation** | | | |
| At 31 March 2008 | 152 | 41 | 193 |
| Charge for the year | 21 | 31 | 52 |
| Transfers to assets held for resale | (132) | - | (132) |
| Impairment loss | 119 | - | 119 |
| At 31 March 2009 | 160 | 72 | 232 |
| Charge for the year | 21 | 84 | 105 |
| Transfers from other Group companies | - | 7 | 7 |
| **At 31 March 2010** | **181** | **163** | **344** |
| | | | |
| **Net book amounts** | | | |
| At 31 March 2008 | 2,279 | 69 | 2,348 |
| At 31 March 2009 | 1,796 | 163 | 1,959 |
| **At 31 March 2010** | **1,775** | **178** | **1,953** |

## 15. Investment in subsidiary undertakings

| **Company** | £'000 |
|---|---|
| Shares at cost: | |
| At 31 March 2008 and 31 March 2009 | 155,426 |
| Reimbursement of consideration paid in prior years | (1,248) |
| Disposals | (199) |
| **At 31 March 2010** | **153,979** |

During the year, the Company received a reimbursement of consideration of £1,248,000 from the vendor in relation to an acquisition in a prior year. The reimbursement was an agreed adjustment in respect of the total amount payable.

During the year the Company liquidated its 100% owned dormant subsidiary Cranswick ApS. The loss on disposal recognised in the income statement of the Company was £199,000. There was no overall loss to the Group.

The principal subsidiary undertakings during the year were:

**Food**

Cranswick Country Foods plc
Studleigh-Royd Limited
Brookfield Foods Limited
The Sandwich Factory Group Limited (registered in Scotland)
Delico Limited
Cranswick Country Foods (Norfolk) Limited (Acquired 24 June 2009) (Held by Cranswick Country Foods plc)

**Pet**

Cranswick Pet & Aquatics plc (Trade and assets disposed 24 April 2009)

Except where otherwise stated, each of the companies is registered in England and Wales and Cranswick plc holds directly 100 per cent of the shares and voting rights of each subsidiary undertaking. On 24 April 2009, the trade and certain assets and liabilities of Cranswick Pet & Aquatics plc were disposed of by the Group (Note 9).

## 16. Acquisition

On 24 June 2009, the Group acquired 100 per cent of the issued share capital of Bowes of Norfolk Limited for a cash consideration of £17.2 million. The principal activity of Bowes of Norfolk Limited is that of pork processing.

Book and fair values of the net assets at the date of acquisition were as follows:

| | Acquiree's book value before combination | Fair Value |
|---|---|---|
| | £'000 | £'000 |
| Net assets acquired: | | |
| Property, plant and equipment | 8,489 | 6,031 |
| Financial assets | 1,500 | 1,500 |
| Deferred tax asset | 656 | 1,344 |
| Inventories | 1,679 | 1,679 |
| Trade receivables | 7,809 | 7,809 |
| Bank and cash balances | 6,658 | 6,658 |
| Retirement benefit obligations | (5,778) | (5,778) |
| Trade payables | (12,883) | (12,883) |
| Government grants | (100) | (100) |
| Finance lease obligations | (600) | (600) |
| | 7,430 | 5,660 |
| Goodwill arising on acquisition | | 12,231 |
| Total consideration | | 17,891 |
| | | |
| Satisfied by: | | |
| Cash | | 17,157 |
| Costs associated with acquisition, settled in cash | | 734 |
| | | 17,891 |
| Net cash outflow arising on acquisition: | | |
| Cash consideration paid | | 17,157 |
| Costs associated with acquisition, settled in cash | | 734 |
| Cash and cash equivalents acquired | | (6,658) |
| | | 11,233 |

From the date of acquisition, the acquired business has contributed a net profit after tax of £0.5 million to the Group. If the combination had taken place at the beginning of the year, the Group's profit after tax from continuing operations for the year would have been £32.6 million and revenue from continuing operations would have been £762.2 million.

Included in the £12,231,000 of goodwill recognised above, are certain intangible assets that cannot be individually separated from the acquiree and reliably measured due to their nature. These items include the expected value of synergies, business continuity planning through access to a further pork processing facility and an assembled workforce.

## 17. Inventories

| Group | 2010<br>£'000 | 2009<br>£'000 |
|---|---|---|
| Raw materials | **30,017** | 24,944 |
| Finished goods and goods for resale | **5,943** | 3,520 |
| | **35,960** | 28,464 |

## 18. Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2010**<br>**£'000** | 2009<br>£'000 | **2010**<br>**£'000** | 2009<br>£'000 |
| Financial Assets: | | | | |
| Trade receivables | **75,466** | 64,438 | **-** | - |
| Amounts owed by Group undertakings | **-** | - | **15,118** | 21,852 |
| Other receivables | **3,918** | 2,810 | **62** | 253 |
| | **79,384** | 67,248 | **15,180** | 22,105 |
| Non-financial assets: | | | | |
| Prepayments and accrued income | **4,682** | 6,407 | **243** | 62 |
| | **84,066** | 73,655 | **15,423** | 22,167 |
| Trade receivables continuing operations | **75,466** | 64,438 | **-** | - |
| Trade receivables held for resale | **-** | 5,614 | **-** | - |
| | **75,466** | 70,052 | **-** | - |

Financial assets are carried at amortised cost. As at 31 March, the analysis of trade receivables that were past due but not impaired was as follows:

| **Group** | Trade receivables | Of which: | | | |
|---|---|---|---|---|---|
| | | Not due | Past due date in the following periods: | | |
| | | | Less than 30 days | Between 30 and 60 days | More than 60 days |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **2010** | **75,466** | **63,989** | **8,334** | **2,072** | **1,071** |
| 2009 | 64,438 | 56,425 | 6,572 | 1,006 | 435 |

Trade receivables are non-interest bearing and are generally on 30-60 days' terms and are shown net of a provision for impairment. As at 31 March 2010, trade receivables at nominal value of £639,000 (2009 - £352,000) were impaired and fully provided for. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Movements in the provision for impairment of receivables were as follows:

| | £'000 |
|---|---|
| **Bad debt provision** | |
| At 31 March 2008 | 634 |
| Transferred to assets held for resale | (782) |
| Provided in year | 998 |
| Written off | (498) |
| At 31 March 2009 | 352 |
| Provided in year | 372 |
| Written off | (85) |
| **At 31 March 2010** | **639** |

There are no bad debt provisions against other receivables.

## 19. Other financial assets

| **Current** | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2010 £'000** | 2009 £'000 | **2010 £'000** | 2009 £'000 |
| Forward currency contracts | **263** | 139 | **-** | - |
| Interest rate swap (2) | **-** | 124 | **-** | 124 |
| | **263** | 263 | **-** | 124 |

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2010 £'000** | 2009 £'000 | **2010 £'000** | 2009 £'000 |
| Movement on hedged items: | | | | |
| Gains/(losses) arising in the year | **186** | 263 | **(77)** | 124 |
| Reclassification adjustment for gains included in the Income Statement | **(573)** | (1,029) | **(434)** | (70) |
| | **(387)** | (766) | **(511)** | 54 |

| **Non-current** | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2010 £'000** | 2009 £'000 | **2010 £'000** | 2009 £'000 |
| Financial assets | **1,500** | - | **-** | - |

Non-current financial assets relate to consideration receivable from East Anglian Pigs Limited, the management buyout team which acquired the pig rearing division of Bowes of Norfolk Limited concurrently with Cranswick plc's acquisition of the company. Repayment of the loan is receivable in a single instalment of £500,000 on 23 June 2012 with the balance due in 24 equal monthly instalments with the final payment on 23 June 2014. Interest is receivable on the loan at Bank of England base rate plus 3 per cent.

Movements on hedged foreign currency contracts are reclassified through cost of sales. Interest rate movements on hedged bank borrowings are reclassified through finance costs. All 'Other' current financial assets are used for hedging.

***Forward currency contracts***

Forward currency contracts are used to hedge a proportion of anticipated purchases denominated in foreign currencies and are held at fair value in the balance sheet. To the extent that these forward contracts represent effective hedges, movements in fair value are taken directly to equity and are then recycled through the income statement in the period during which the hedged item impacts the income statement. A description of amounts and maturities is contained in note 23.

***Interest rate swap (1)***

Under the terms of this interest rate swap (relating to the Group's previous bank facilities, which have now been repaid) the Group receives LIBOR interest and pays fixed interest of 4.98 per cent. The notional principal amount of the swap stood at £9,000,000 as at 31 March 2009 and reduced in equal semi-annual instalments of £4,500,000 to £nil by January 2010.

***Interest rate swap (2)***

Under the terms of this interest rate swap (relating to the Group's current bank facilities) the Group receives LIBOR interest and pays fixed interest of 2.04 per cent. The notional principal amount of the swap stands at £26,750,000 as at 31 March 2010 and reduces in equal quarterly instalments of £1,750,000 with a final notional payment of principal of £16,250,000 in December 2011.

## 20. Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 £'000** | 2009 £'000 | **2010 £'000** | 2009 £'000 |
| **Current** | | | | |
| Trade payables | **55,269** | 50,236 | **448** | 201 |
| Amounts owed to Group undertakings | **-** | - | **32,482** | 41,745 |
| Other payables | **31,464** | 25,036 | **5,154** | 4,102 |
| Deferred income | **12** | 1 | **-** | - |
| | **86,745** | 75,273 | **38,084** | 46,048 |
| **Non-current** | | | | |
| Deferred income | **82** | - | **-** | - |

## 21. Other financial liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 £'000** | 2009 £'000 | **2010 £'000** | 2009 £'000 |
| **Current** | | | | |
| Bank overdrafts | **1,956** | 12,437 | **-** | 6,157 |
| Amounts outstanding under revolving credit facility | **-** | 9,000 | **-** | 9,000 |
| Current instalments due on bank loan | **10,000** | 12,500 | **10,000** | 12,500 |
| Loan notes | **-** | 762 | **-** | 460 |
| Finance leases and hire purchase contracts | **144** | - | **-** | - |
| Interest rate swap (1) – (note 19) | **-** | 173 | **-** | 173 |
| Interest rate swap (2) – (note 19) | **387** | - | **387** | - |
| | **12,487** | 34,872 | **10,387** | 28,290 |
| **Non-current** | | | | |
| Non-current instalments due on bank loan | **49,530** | 36,382 | **49,530** | 36,382 |
| Finance leases and hire purchase contracts | **336** | - | **-** | - |
| | **49,866** | 36,382 | **49,530** | 36,382 |

None of the finance leases and hire purchase contracts has amounts due after greater than 5 years.

All financial liabilities are amortised at cost, except for interest rate swaps.

A bank overdraft facility of £20 million (2009 - £20 million) is in place until December 2011, of which £1,956,000 (2009 -

£12,437,000) was utilised at 31 March 2010. Interest is payable at a margin over base rate.

A revolving credit facility of £30 million is in place of which £nil was utilised as at 31 March 2010 (2009 - facility of £30 million of which £9 million was utilised). This facility expires in December 2011. Interest is payable on the loan at a margin of 1.75 per cent above LIBOR.

| The maturity profile of bank loans is as follows: | Group | | Company | |
|---|---|---|---|---|
| | **2010 £'000** | 2009 £'000 | **2010 £'000** | 2009 £'000 |
| In one year or less | **10,000** | 12,500 | **10,000** | 12,500 |
| Between one year and two years | **50,000** | 10,000 | **50,000** | 10,000 |
| Between two and five years | **-** | 27,500 | **-** | 27,500 |
| | **60,000** | 50,000 | **60,000** | 50,000 |
| Unamortised issue costs | **(470)** | (1,118) | **(470)** | (1,118) |
| | **59,530** | 48,882 | **59,530** | 48,882 |

The balance outstanding on the term loan of £60.0 million is repayable in 7 quarterly instalments of £2.5 million from April 2010, followed by a single payment of £42.5 million in December 2011. A further £20 million was drawndown under the facility during the year. Interest is payable on the loan at a margin of 1.75 per cent above LIBOR. The loan is unsecured. The loan is subject to normal bank covenant arrangements. Under the terms of the interest rate swap the Group receives LIBOR interest and pays fixed interest of 2.04 per cent.

Interest on the loan notes was based on base rate and was repayable on demand at six-monthly intervals. The loan notes were repayable on demand and were repaid in full during the year.

## 22. Provisions

| **Group** | Lease provisions £'000 |
|---|---|
| At 1 April 2009 | 1,500 |
| Credited in the year | (59) |
| Utilisation in the year | (334) |
| Unwinding of discount | 24 |
| **At 31 March 2010** | **1,131** |

| Analysed as: | Group | |
|---|---|---|
| | **2010 £'000** | 2009 £'000 |
| Current liabilities | **149** | 334 |
| Non-current liabilities | **982** | 1,166 |
| | **1,131** | 1,500 |

Lease provisions are held against dilapidation obligations on leased properties and for the costs of onerous leases for property, plant and machinery. These provisions are expected to be utilised over the next four years. There are no provisions held by the Company.

## 23. Financial instruments

An explanation of the Company and Group's financial instruments risk management strategy is set out on pages 13 to 19 in the Group Operating and Financial Review.

**Interest rate risk profile of financial assets and liabilities**

The interest rate profile of the interest earning financial assets and interest bearing liabilities of the Group as at 31 March 2010 and their weighted average interest rates is set out below:

| **Group** | | | | **Fixed interest** | | |
|---|---|---|---|---|---|---|
| **As at 31 March 2010** | **Weighted average effective interest rate %** | **Total £'000** | **At floating interest rates £'000** | **1 year or less £'000** | **1-2 years £'000** | **2-3 years £'000** |
| Financial liabilities: | | | | | | |
| Bank overdrafts | **2.25%** | **(1,956)** | **(1,956)** | **-** | **-** | **-** |
| Bank loan (including the effect of interest rate swaps) | **3.09%** | **(60,000)** | **(33,250)** | **(7,000)** | **(19,750)** | **-** |
| Finance leases and hire purchase contracts | **5.75%** | **(480)** | **-** | **(144)** | **(154)** | **(182)** |
| | | **(62,436)** | **(35,206)** | **(7,144)** | **(19,904)** | **(182)** |
| Less: effect of interest rate swaps | | **-** | **(26,750)** | **7,000** | **19,750** | **-** |
| Total financial liabilities excluding the effect of interest rate swaps | | **(62,436)** | **(61,956)** | **(144)** | **(154)** | **(182)** |
| Financial assets: Cash at bank | **0.00%** | **5,922** | **5,922** | **-** | **-** | **-** |
| Non-current financial assets | **3.50%** | **1,500** | **1,500** | **-** | **-** | **-** |
| | | **(55,014)** | **(54,534)** | **(144)** | **(154)** | **(182)** |

| | | | | Fixed interest | | |
|---|---|---|---|---|---|---|
| As at 31 March 2009 | Weighted average effective interest rate % | Total £'000 | At floating interest rates £'000 | 1 year or less £'000 | 1-2 years £'000 | 2-3 years £'000 |
| Financial liabilities: | | | | | | |
| Bank overdrafts | 5.11% | (12,437) | (12,437) | - | - | - |
| Revolving credit facility | 3.48% | (9,000) | (9,000) | - | - | - |
| Bank loan (including the effect of interest rate swaps) | 3.67% | (50,000) | (7,250) | (16,000) | (7,000) | (19,750) |
| Loan notes | 2.40% | (762) | (762) | - | - | - |
| | | (72,199) | (29,449) | (16,000) | (7,000) | (19,750) |
| Less: effect of interest rate swaps | | - | (42,750) | 16,000 | 7,000 | 19,750 |
| Total financial liabilities excluding the effect of interest rate swaps | | (72,199) | (72,199) | - | - | - |
| Financial assets: Cash at bank | 2.86% | 4,399 | 4,399 | - | - | - |
| | | (67,800) | (67,800) | - | - | - |

The maturity profile of bank loans is set out in note 21.

The interest rate profile of the interest earning financial assets and interest bearing liabilities of the Company as at 31 March 2010 and their weighted average interest rates is set out below:

| **Company** | | | | **Fixed interest** | | |
|---|---|---|---|---|---|---|
| **As at 31 March 2010** | **Weighted average effective interest rate** | **Total** | **At floating interest rates** | **1 year or less** | **1-2 years** | **2-3 years** |
| | **%** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Financial liabilities: | | | | | | |
| Bank loan (including the effect of interest rate swaps) | **3.09%** | **(60,000)** | **(33,250)** | **(7,000)** | **(19,750)** | **-** |
| Less: effect of interest rate swaps | | **-** | **(26,750)** | **7,000** | **19,750** | **-** |
| Total financial liabilities excluding the effect of interest rate swaps | | **(60,000)** | **(60,000)** | **-** | **-** | **-** |
| Financial assets: Cash at bank | **0.00%** | **4,004** | **4,004** | **-** | **-** | **-** |
| | | **(55,996)** | **(55,996)** | **-** | **-** | **-** |

| | | | | Fixed interest | | |
|---|---|---|---|---|---|---|
| As at 31 March 2009 | Weighted average effective interest rate | Total | At floating interest rates | 1 year or less | 1-2 years | 2-3 years |
| | % | £'000 | £'000 | £'000 | £'000 | £'000 |
| Financial liabilities: | | | | | | |
| Bank overdrafts | 5.11% | (6,157) | (6,157) | - | - | - |
| Revolving credit facility | 3.48% | (9,000) | (9,000) | - | - | - |
| Bank loan (including the effect of interest rate swaps) | 3.67% | (50,000) | (7,250) | (16,000) | (7,000) | (19,750) |
| Loan notes | 2.40% | (460) | (460) | - | - | - |
| | | (65,617) | (22,867) | (16,000) | (7,000) | (19,750) |
| Less: effect of interest rate swaps | | - | (42,750) | 16,000 | 7,000 | 19,750 |
| Total financial liabilities excluding the effect of interest rate swaps | | (65,617) | (65,617) | - | - | - |
| Financial assets: Cash at bank | 2.86% | - | - | - | - | - |
| | | (65,617) | (65,617) | - | - | - |

**Currency profile**

The Group's financial assets at 31 March 2010 include sterling denominated cash balances of £4,349,000 (2009 - £2,853,000), Danish krona £nil (2009 - £8,000), euro £1,573,000 (2009 - £1,378,000) and US dollar £nil (2009 - £160,000), all of which are held in the UK (2009 – euro £297,000 held with banks outside the UK). The Group's financial liabilities are denominated in sterling.

The proportion of the Group's net assets denominated in foreign currencies is immaterial.

The Group's other financial assets and liabilities are denominated in sterling.

**Credit risk**

The Group makes a significant proportion of its sales to the major UK supermarket groups, which correspondingly represent a significant proportion of the Group's trade receivables at any one time. Based on the financial strength of these customers, the Directors do not consider that the Group faces a significant credit risk in this regard.

All cash financial assets are held by UK financial institutions. The maximum credit exposure relating to financial assets is represented by their carrying values as at the balance sheet date.

**Fair value hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group's assets and liabilities measured at fair value, comprising the interest rate swap and forward currency contracts, are all measured using Level 2 of the fair value hierarchy. The Group's 5.5% retained shareholding in Cranswick Pet & Aquatics Limited (described in note 9) would have been classified as level 3, however as the investment is an unquoted entity and cannot be reliably measured the Directors consider that its value is immaterial and no fair value has been applied.

**Fair value of financial instruments**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties on an arm's length basis. The fair value of floating rate assets and liabilities is estimated to be equivalent to book value. All derivative financial instruments are shown on the balance sheet at fair value.

| **Group** | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Book value £'000** | **Fair value £'000** | Book value £'000 | Fair value £'000 |
| **Financial assets** | | | | |
| Cash | **5,922** | **5,922** | 4,399 | 4,399 |
| Non-current financial assets | **1,500** | **1,500** | - | - |
| Forward currency contracts | **263** | **263** | 139 | 139 |
| Interest rate swap (2) – (note 19) | **-** | **-** | 124 | 124 |
| | **7,685** | **7,685** | 4,662 | 4,662 |
| **Financial liabilities** | | | | |
| Bank overdraft | **(1,956)** | **(1,956)** | (12,437) | (12,437) |
| Amounts outstanding under revolving credit facility | **-** | **-** | (9,000) | (9,000) |
| Bank loan | **(60,000)** | **(60,000)** | (50,000) | (50,000) |
| Loan notes | **-** | **-** | (762) | (762) |
| Finance leases and hire purchase contracts | **(480)** | **(480)** | - | - |
| Interest rate swap (1) – (note 19) | **-** | **-** | (173) | (173) |
| Interest rate swap (2) – (note 19) | **(387)** | **(387)** | - | - |
| | **(62,823)** | **(62,823)** | (72,372) | (72,372) |
| **At 31 March** | **(55,138)** | **(55,138)** | (67,710) | (67,710) |

| Company | 2010 | | 2009 | |
|---|---|---|---|---|
| | **Book value £'000** | **Fair value £'000** | Book value £'000 | Fair value £'000 |
| **Financial asset** | | | | |
| Cash | **4,004** | **4,004** | - | - |
| Interest rate swap (2) – (note 19) | **-** | **-** | 124 | 124 |
| | **4,004** | **4,004** | 124 | 124 |
| **Financial liabilities** | | | | |
| Bank overdraft | **-** | **-** | (6,157) | (6,157) |
| Amounts outstanding under revolving credit facility | **-** | **-** | (9,000) | (9,000) |
| Bank loan | **(60,000)** | **(60,000)** | (50,000) | (50,000) |
| Loan notes | **-** | **-** | (460) | (460) |
| Interest rate swap (1) – (note 19) | **-** | **-** | (173) | (173) |
| Interest rate swap (2) – (note 19) | **(387)** | **(387)** | - | - |
| | **(60,387)** | **(60,387)** | (65,790) | (65,790) |
| **At 31 March** | **(56,383)** | **(56,383)** | (65,666) | (65,666) |

The book value of trade and other receivables and trade and other payables equates to fair value for the Group and Company. Details of these financial assets and liabilities are included in notes 18 and 20.

### Hedges

Financial instruments designated as cash flow hedges are held at fair value in the balance sheet. The Group hedges two types of cash flows:

i) ***Forward contracts to hedge expected future purchases***

The Group hedges a proportion of its near-term expected purchases denominated in overseas currencies. Where these hedges meet the hedge criteria of IAS 39 changes in fair value are posted directly to equity and subsequently reclassified through the income statement at the time that the hedged item affects profit or loss.

**Group**

| Currency | Amount | Maturities | Exchange rates | Fair value £'000 |
|---|---|---|---|---|
| euros | euros 14,750,000 | 12 April 2010 to 22 September 2010 | €1.09 – €1.15 | 263 |

These contracts were effective cash flow hedges under the criteria set out in IAS 39 and therefore these fair value gains were recognised directly in equity.

The Company does not hold any forward contracts.

ii) ***Interest rate swaps***

The Group hedges a proportion of the interest cash flows payable in respect of bank loans.

- ***Interest rate swap (1) – (note 19)***

  Under the terms of this interest rate swap (relating to the Group's previous bank facilities, which have now been repaid) the Group received LIBOR interest and paid fixed interest of 4.98 per cent. The notional principal amount of the swap stood at £9,000,000 as at 31 March 2009 and reduced in equal semi-annual instalments of £4,500,000 to £nil by January 2010.

  The swap was an ineffective cash flow hedge under the criteria set out in IAS 39 and therefore movements in fair value have been posted to the income statement.

- ***Interest rate swap (2) – (note 19)***

  Under the terms of this interest rate swap (relating to the Group's current bank facilities) the Group receives LIBOR interest and pays fixed interest of 2.04 per cent. The notional principal amount of the swap stands at £26,750,000 as at 31 March 2010 and reduces in equal quarterly instalments of £1,750,000 with a final notional payment of principal of £16,250,000 in December 2011.

  The swap was an effective cash flow hedge under the criteria set out in IAS 39 and therefore movements in fair value have been posted directly to equity and reclassified through the income statement, in finance costs, at the time the hedged item affects the income statement.

**Interest rate risk**

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no material impact on the Group's equity.

Currency derivatives have not been included in the sensitivity analysis below as they are not considered to be exposed to interest rate risk.

| | Increase / decrease in basis points | Effect on profit before tax £000 |
|---|---|---|
| **2010** | | |
| **sterling** | **+100** | **(271)** |
| | **-100** | **271** |
| 2009 | +100 | (565) |
| sterling | -100 | 565 |

**Liquidity risk**

The tables below summarise the maturity profile of the Group's financial liabilities at 31 March 2010 and 2009 based on contractual undiscounted payments:

| **Group**<br>**Year ended 31 March 2010** | **Less than 1 year £'000** | **1 to 2 years £'000** | **2 to 5 years £'000** | **Total £'000** |
|---|---|---|---|---|
| Bank overdraft | **1,956** | **-** | **-** | **1,956** |
| Bank loan | **11,225** | **50,757** | **-** | **61,982** |
| Interest rate swap | **357** | **197** | **-** | **554** |
| Finance leases and hire purchase contracts | **170** | **171** | **191** | **532** |
| Trade and other payables | **86,733** | **-** | **-** | **86,733** |
| | **100,441** | **51,125** | **191** | **151,757** |

| Year ended 31 March 2009 | Less than 1 year £'000 | 1 to 2 years £'000 | 2 to 5 years £'000 | Total £'000 |
|---|---|---|---|---|
| Bank overdraft | 12,437 | - | - | 12,437 |
| Revolving credit facility | 9,000 | - | - | 9,000 |
| Bank loan | 11,231 | 10,943 | 30,515 | 52,689 |
| Interest rate swap | 304 | 234 | 129 | 667 |
| Loan notes | 762 | - | - | 762 |
| Trade and other payables | 75,273 | - | - | 75,273 |
| | 109,007 | 11,177 | 30,644 | 150,828 |

| Company | Less than 1 year | 1 to 2 years | 2 to 5 years | Total |
|---|---|---|---|---|
| **Year ended 31 March 2010** | **£'000** | **£'000** | **£'000** | **£'000** |
| Bank loan | **11,225** | **50,757** | **-** | **61,982** |
| Interest rate swap | **357** | **197** | **-** | **554** |
| Trade and other payables | **38,084** | **-** | **-** | **38,084** |
| Cross guarantees | **1,956** | **-** | **-** | **1,956** |
| | **51,622** | **50,954** | **-** | **102,576** |

| Year ended 31 March 2009 | Less than 1 year £'000 | 1 to 2 years £'000 | 2 to 5 years £'000 | Total £'000 |
|---|---|---|---|---|
| Bank overdraft | 6,157 | - | - | 6,157 |
| Revolving credit facility | 9,000 | - | - | 9,000 |
| Bank loan | 11,231 | 10,943 | 30,515 | 52,689 |
| Interest rate swap | 304 | 234 | 129 | 667 |
| Loan notes | 460 | - | - | 460 |
| Trade and other payables | 46,048 | - | - | 46,048 |
| Cross guarantees | 6,280 | - | - | 6,280 |
| | 79,480 | 11,177 | 30,644 | 121,301 |

The interest rate swaps disclosed in the above tables are the net undiscounted cash flows as these amounts are settled net.

## 24. Called-up share capital

**Group and Company**

| Authorised | **2010 Number** | 2009 Number | **2010 £'000** | 2009 £'000 |
|---|---|---|---|---|
| Ordinary shares of 10p each | **100,000,000** | 63,600,000 | **10,000** | 6,360 |

| Allotted, called-up and fully paid | **2010** | 2009 | **2010** | 2009 |
|---|---|---|---|---|
| Ordinary shares of 10p each | **Number** | Number | **£'000** | £'000 |
| At 1 April | **46,459,958** | 46,225,491 | **4,646** | 4,623 |
| On exercise of share options | **504,196** | 125,168 | **50** | 12 |
| Scrip dividends | **265,913** | 109,299 | **27** | 11 |
| Allotted to Cranswick plc Employee Benefit Trust | **100,000** | - | **10** | - |
| **At 31 March** | **47,330,067** | 46,459,958 | **4,733** | 4,646 |

On 4 September 2009, 168,701 ordinary shares were issued at 594.0 pence as a result of Shareholders exercising the scrip dividend option in lieu of the cash payment for the 2009 final dividend.

On 22 January 2010, 97,212 ordinary shares were issued at 744.6 pence as a result of Shareholders exercising the scrip dividend option in lieu of the cash payment for the 2010 interim dividend.

During the course of the year, 504,196 ordinary shares were issued to employees exercising SAYE and Executive options at prices between 255.0 pence and 679.0 pence.

Of the unissued ordinary share capital £54,395 is reserved for allotment under the Savings Related and Executive Share Option Schemes. The options are exercisable as follows:

| | Number | Exercise price | Exercise period |
|---|---|---|---|
| Savings related | 4,277 | 415p | March 2006 to October 2010 |
| Savings related | 421 | 255p | March 2007 to October 2011 |
| Savings related | 20,285 | 375p | March 2008 to October 2012 |
| Savings related | 38,010 | 471p | March 2009 to October 2013 |
| Savings related | 37,435 | 679p | March 2010 to October 2014 |
| Savings related | 33,904 | 665p | March 2011 to October 2015 |
| Savings related | 204,953 | 474p | March 2012 to October 2016 |
| Savings related | 154,665 | 594p | March 2013 to October 2017 |
| Executive | 50,000 | 601p | July 2008 to July 2015 |

On 5 September 2008, 77,905 ordinary shares were issued at 567.7 pence as a result of Shareholders exercising the scrip dividend option in lieu of the cash payment for the 2008 final dividend.

On 23 January 2009, 31,394 ordinary shares were issued at 593.1 pence as a result of Shareholders exercising the scrip dividend option in lieu of the cash payment for the 2009 interim dividend.

During the course of the prior year, 125,168 ordinary shares were issued to employees exercising SAYE options at prices between 255.0 pence and 471.0 pence.

## 25. Share-based payments

The Group operates three share option schemes, a Revenue approved scheme (SAYE), an unapproved scheme (Executive Share Option) and a Long Term Incentive Plan (LTIP), all of which are equity settled. The total expense charged to the income statement during the year in relation to share-based payments was £510,000 (2009: £1,000,000).

**Executive Share Option Scheme**

Share options are granted periodically to promote the involvement of senior management in the longer term success of the Group. Options can only be exercised if certain performance conditions are met by the Group. These conditions are based on total Shareholder return over the performance period and require the Group to be in the top half of a basket of food companies quoted on the London Stock Exchange selected by the remuneration Committee. Options have a contractual life of ten years.

Directors may also apply for SAYE options on the same terms as apply to all other employees.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, Executive share options during the year:

| **Group** | **2010 Number** | **2010 WAEP £** | 2009 Number | 2009 WAEP £ |
|---|---|---|---|---|
| Outstanding as at 1 April | **475,000** | **6.01** | 490,000 | 6.01 |
| Lapsed during the year | **-** | **-** | (15,000) | 6.01 |
| Exercised during the year (i) | **(425,000)** | **6.01** | - | - |
| Outstanding as at 31 March (ii) | **50,000** | **6.01** | 475,000 | 6.01 |
| Exercisable at 31 March | **50,000** | **6.01** | 475,000 | 6.01 |

| Company | 2010 Number | 2010 WAEP £ | 2009 Number | 2009 WAEP £ |
|---|---|---|---|---|
| Outstanding as at 1 April | **265,000** | **6.01** | 265,000 | 6.01 |
| Exercised during the year (i) | **219,991** | **6.01** | - | - |
| Outstanding as at 31 March (ii) | **45,009** | **6.01** | 265,000 | 6.01 |
| Exercisable at 31 March | **45,009** | **6.01** | 265,000 | 6.01 |

i) The weighted average share price at the date of the exercise for the options exercised was £7.67.

ii) For the share options outstanding as at 31 March 2010, the weighted average remaining contractual life is 4.25 years. (2009 – 5.25 years). The exercise price for all options outstanding at the end of the year was £6.01.

There were no options granted during the year.

**Long Term Incentive Plan (LTIP)**

During the course of the year 182,700 options at nil cost were granted to Directors and senior executives, the share price at that time was 592.5 pence. Details of the performance criteria relating to the LTIP scheme can be found in the Directors' Remuneration report on pages 35 and 36.

| Group | 2010 Number | 2010 WAEP £ | 2009 Number | 2009 WAEP £ |
|---|---|---|---|---|
| Outstanding as at 1 April | **532,500** | **-** | 365,000 | - |
| Granted during the year (i) | **182,700** | **-** | 177,500 | - |
| Lapsed during the year | **(136,738)** | **-** | (10,000) | - |
| Exercised during the year (ii) | **(118,419)** | **-** | - | - |
| Outstanding as at 31 March (iii) | **460,043** | **-** | 532,500 | - |
| Exercisable at 31 March | **37,343** | **-** | - | - |

| Company | 2009 Number | 2009 WAEP £ | 2008 Number | 2008 WAEP £ |
|---|---|---|---|---|
| Outstanding as at 1 April | **375,000** | **-** | 250,000 | - |
| Granted during the year (i) | **110,700** | **-** | 125,000 | - |
| Lapsed during the year | **(107,930)** | **-** | - | - |
| Exercised during the year (ii) | **(79,727)** | **-** | - | - |
| Outstanding as at 31 March (iii) | **298,043** | **-** | 375,000 | - |
| Exercisable at 31 March | **37,343** | **-** | - | - |

i) The weighted average fair value of options granted during the year was £3.89 (2009 - £4.22). The share options granted during the year were at £nil. The share price at the date of grant was £5.92.

ii) The weighted average share price at the date of the exercise for the options exercised was £6.62.

iii) For the share options outstanding as at 31 March 2010, the weighted average remaining contractual life is 8.37 years. (2009 – 8.32 years). The exercise price for all options outstanding at the end of the year was £nil.

**All Employee Share Option Scheme (SAYE)**

All employees are entitled to a grant of options once they have been in service for two years or more. The exercise price is equal to the market price of the shares less 20 per cent on the date of the grant. The contractual life of the options is 3, 5 or 7 years.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, SAYE share options during the year.

| Group | 2010 Number | 2010 WAEP £ | 2009 Number | 2009 WAEP £ |
|---|---|---|---|---|
| Outstanding as at 1 April | **529,244** | **5.00** | 504,672 | 5.16 |
| Granted during the year (i) | **156,161** | **5.94** | 284,808 | 4.74 |
| Lapsed during the year | **(112,259)** | **5.14** | (135,068) | 6.28 |
| Exercised during the year (ii) | **(79,196)** | **4.55** | (125,168) | 3.69 |
| Outstanding as at 31 March (iii) | **493,950** | **5.35** | 529,244 | 5.00 |
| Exercisable at 31 March | **14,723** | **5.70** | 17,461 | 3.20 |

| Company | 2010 Number | 2010 WAEP £ | 2009 Number | 2009 WAEP £ |
|---|---|---|---|---|
| Outstanding as at 1 April | **12,051** | **5.08** | 10,599 | 5.28 |
| Granted during the year (i) | **1,984** | **5.94** | 9,371 | 4.74 |
| Lapsed during the year | **-** | **-** | (5,339) | 6.71 |
| Exercised during the year (ii) | **(3,896)** | **5.36** | (2,580) | 4.71 |
| Outstanding as at 31 March (iii) | **10,139** | **5.14** | 12,051 | 5.08 |
| Exercisable at 31 March | **-** | **-** | - | - |

i) The share options granted during the year were at £5.94, representing a 20 per cent discount on the price at the relevant date. The share price at the date of grant was £7.85.

ii) The weighted average share price at the date of the exercise for the options exercised was £7.45 (2009 - £6.37).

iii) Included within this balance are options over nil shares (2009 – 6,396 shares) that have not been recognised in accordance with IFRS 2 as options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

For the share options outstanding as at 31 March 2010 the weighted average remaining contractual life is 3.39 years (2009 – 3.58 years).

The weighted average fair value of options granted during the year was £1.87 (2009 - £1.23). The range of exercise prices for options outstanding at the end of the year was £2.55 - £6.79 (2009 - £2.55 - £6.79).

The fair value of the SAYE and LTIP equity settled options granted is estimated as at the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended 31 March 2010 and 31 March 2009.

| **Group and Company** | **2010 LTIP** | **2010 SAYE** | 2009 LTIP | 2009 SAYE |
|---|---|---|---|---|
| Dividend yield | **4.48%** | **3.39%** | 3.87% | 4.27% |
| Expected share price volatility | **31.0%** | **31.0%** | 31.0% | 31.0% |
| Risk free interest rate | **2.74%** | **2.09% - 3.33%** | 5.27% | 2.75% - 3.25% |
| Expected life of option (years) | **3 years** | **3,5,7 years** | 3 years | 3,5,7 years |
| Exercise prices | **£nil** | **£5.94** | £nil | £4.74 |

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

The initial fair value of LTIP options is adjusted to take into account the market-based performance condition.

## 26. Pensions schemes

*Defined benefit pension scheme*

The Group acquired a defined benefit final salary pension scheme during the year, which is funded by the payment of contributions to separately administered trust funds. The scheme was closed to new members and future accrual on 30 June 2004.

Pension costs are determined with the advice of an independent qualified actuary on the basis of a triennial valuation using the projected unit credit method. The latest available formal actuarial valuations of the schemes were carried out as at 1 January 2007, with the 1 January 2010 valuation currently in progress. These valuations were updated to the year end. Plan assets are stated at fair value at the respective balance sheet dates and overall expected rates of return are established by applying published brokers' forecasts to each category of scheme assets.

| a) *Change in benefit obligation* | **2010 £'000** |
|---|---|
| Benefit obligation acquired | **14,869** |
| Interest cost | **692** |
| Actuarial losses | **2,042** |
| Benefits paid from plan | **(462)** |
| Benefit obligation at end of year | **17,141** |

| b) *Change in plan assets* | **2010 £'000** |
|---|---|
| Fair value of plan assets acquired | **9,091** |
| Expected return on plan assets | **474** |
| Actuarial gain on plan assets | **1,955** |
| Employer contributions | **730** |
| Benefits paid from plan | **(462)** |
| Fair value of plan assets at end of year | **11,788** |

| c) *Amounts recognised in the balance sheet* | 2010<br>£'000 |
|---|---|
| Present value of funded obligations | **(17,141)** |
| Fair value of plan assets | **11,788** |
| Net liability recorded in the balance sheet | **(5,353)** |

| d) *Components of pension cost* | 2010<br>£'000 |
|---|---|
| Amounts recognised in the income statement | |
| Interest cost | **692** |
| Expected return on plan assets | **(474)** |
| Total pension cost recognised in the income statement | **218** |
| | |
| Actual return on assets | |
| Actual return on plan assets | **2,429** |
| | |
| Amounts recognised in the Group statement of comprehensive income | |
| Actuarial losses immediately recognised | **87** |
| | |
| Cumulative amount of actuarial losses recognised | **87** |

e) *Principal actuarial assumptions*

| | 2010 |
|---|---|
| The weighted average actuarial assumptions used in the valuation of the scheme were as follows: | |
| Discount rate | **5.60%** |
| Rate of price inflation | **3.45%** |
| Expected long term rate of return on plan assets during financial year | **7.55%** |
| Rate of compensation increase | **3.45%** |
| | |
| Future expected lifetime of pensioner at age 65: | |
| *Current pensioners* | |
| Male | **23.8** |
| Female | **26.3** |
| *Future pensioners* | |
| Male | **25.9** |
| Female | **28.2** |

The mortality rates used have been taken from Base tables PCMA00 and PCFA00.

A 0.1% increase in the discount rate would give rise to a £6,000 decrease in the amounts charged to the income statement during the year, and a £360,000 decrease in the deficit at 31 March 2010

| f) *Plan Assets* | 2010 Percentage of Plan Assets | 2010 Fair value of Plan Assets |
|---|---|---|
| | | **£'000** |
| Asset Category | | |
| Equity securities | **8.50%** | **8,540** |
| Bonds | **5.60%** | **1,750** |
| Cash | **4.50%** | **1,498** |
| Total | | **11,788** |

The expected rates of return on cash and bonds are determined by reference to relevant gilt yield and corporate bond indices respectively. The long term rate of return on equities is calculated at a premium of 4 per cent above gilt yields.

The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

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

| g) *History of experience gains and losses* | **2010 £'000** |
|---|---|
| Experience adjustments on plan liabilities | **(2,042)** |
| Experience adjustments on plan assets | **1,955** |
| Net actuarial loss for the year | **(87)** |
| Cumulative actuarial loss | **(87)** |

The Group expects to contribute approximately £800,000 to the scheme during the year to 31 March 2011 in respect of regular contributions. In addition the Company will pay a one off special contribution of £870,000.

***Defined contribution pension schemes***

The Group also operates a number of defined contribution pension schemes whereby contributions are made to schemes operated by major insurance companies. Contributions to these schemes are determined as a percentage of employees' earnings. Contributions owing to the insurance companies at the year-end, included in trade and other payables, amounted to £104,000 (2009 - £55,000). Contributions during the year totalled £1,314,000 (2009 - £1,364,000).

## 27. Additional cash flow information

**Analysis of Group net debt**

| | At 31 March 2009 £'000 | Cash flow £'000 | Other non cash changes £'000 | **At 31 March 2010 £'000** |
|---|---|---|---|---|
| Cash and cash equivalents | 4,399 | 1,499 | 24 | **5,922** |
| Overdrafts | (12,437) | 10,481 | - | **(1,956)** |
| | (8,038) | 11,980 | 24 | **3,966** |
| Other financial assets | 263 | - | 1,500 | **1,763** |
| | (7,775) | 11,980 | 1,524 | **5,729** |
| Other financial liabilities | (173) | - | (214) | **(387)** |
| Revolving credit | (9,000) | 9,000 | - | **-** |
| Bank loans | (48,882) | (10,000) | (648) | **(59,530)** |
| Loan notes | (762) | 762 | - | **-** |
| Finance leases and hire purchase contracts | - | 120 | (600) | **(480)** |
| Net debt | (66,592) | 11,862 | 62 | **(54,668)** |

Net debt is defined as cash and cash equivalents, loans receivable and derivatives at fair value less interest bearing liabilities (net of unamortised issue costs). Cash and cash equivalents all relate to continuing operations.

Non-cash movements include £1,500,000 of loans receivable (see non-current financial assets – note 19) and £600,000 of finance lease obligations which were acquired as part of the acquisition described in note 16.

| | At 31 March 2008 £'000 | Cash flow £'000 | Other non cash changes £'000 | At 31 March 2009 £'000 |
|---|---|---|---|---|
| Cash and cash equivalents | 3,770 | 658 | (29) | 4,399 |
| Overdrafts | (11,468) | (969) | - | (12,437) |
| | (7,698) | (311) | (29) | (8,038) |
| Other financial assets | 70 | - | 193 | 263 |
| | (7,628) | (311) | 164 | (7,775) |
| Other financial liabilities | - | - | (173) | (173) |
| Revolving credit | (8,000) | (1,000) | - | (9,000) |
| Bank loans | (61,664) | 13,155 | (373) | (48,882) |
| Loan notes | (1,093) | 331 | - | (762) |
| Net debt | (78,385) | 12,175 | (382) | (66,592) |

**Analysis of Company net debt**

| | At 31 March 2009 £'000 | Cash flow £'000 | Other non cash changes £'000 | **At 31 March 2010 £'000** |
|---|---|---|---|---|
| Cash and cash equivalents | - | 4,004 | - | **4,004** |
| Overdrafts | (6,157) | 6,157 | - | **-** |
| | (6,157) | 10,161 | - | **4,004** |
| Other financial assets | 124 | - | (124) | **-** |
| | (6,033) | 10,161 | (124) | **4,004** |
| Other financial liabilities | (173) | - | (214) | **(387)** |
| Revolving credit | (9,000) | 9,000 | - | **-** |
| Bank loans | (48,882) | (10,000) | (648) | **(59,530)** |
| Loan notes | (460) | 460 | - | **-** |
| Net debt | (64,548) | 9,621 | (986) | **(55,913)** |

| | At 31 March 2008 £'000 | Cash flow £'000 | Other non cash changes £'000 | At 31 March 2009 £'000 |
|---|---|---|---|---|
| Overdrafts | (8,512) | 2,355 | - | (6,157) |
| Other financial assets | 70 | - | 54 | 124 |
| | (8,442) | 2,355 | 54 | (6,033) |
| Other financial liabilities | - | - | (173) | (173) |
| Revolving credit | (8,000) | (1,000) | - | (9,000) |
| Bank loans | (61,664) | 13,155 | (373) | (48,882) |
| Loan notes | (756) | 296 | - | (460) |
| Net debt | (78,862) | 14,806 | (492) | (64,548) |

## 28. Contingent liabilities

The Company, together with its subsidiary undertakings, has entered into a cross guarantee with Lloyds TSB Bank plc, The Royal Bank of Scotland plc and Clydesdale Bank plc in respect of the Group's facilities with those banks. Drawn down amounts totalled £61,956,000 as at 31 March 2010 (2009 - £71,437,000).

For the Company, the amounts drawn down by other group companies which were guaranteed by the Company at the year end totalled £1,956,000 (2009 - £6,280,000).

## 29. Commitments

a) The Directors have contracted for future capital expenditure for property, plant and equipment totalling £14,917,000 (2009 - £3,083,000).

b) The Group's future minimum rentals payable under non-cancellable operating leases are as follows:

| **Group** | **2010 £'000** | 2009 £'000 |
|---|---|---|
| Not later than one year | **3,348** | 2,718 |
| After one year but not more than five years | **8,032** | 7,481 |
| After five years | **12,207** | 14,007 |
| | **23,587** | 24,206 |

The Company has no non-cancellable operating leases.

## 30. Related party transactions

On 24 April 2009 the Pet Division was sold to the management team, headed up by Derek Black, previously a main Board director responsible for the Pet Division, for an initial consideration of £17.0 million, plus a subsequent working capital adjustment of £1.4 million. Derek Black resigned as a main board director of Cranswick plc on that day and is a shareholder and director of the new company. Cranswick plc has retained a 5.5 per cent share in the business.

During the year the Group and Company entered into transactions, in the ordinary course of business, with related parties, including transactions between the Company and its subsidiary undertakings. In the Group accounts transactions between the Company and its subsidiaries are eliminated on consolidation but these transactions are reported for the Company below:

**Company only**

| Related party | Services rendered to the related party £'000 | Interest paid to related party £'000 | Dividends received from related party £'000 |
|---|---|---|---|
| Subsidiaries | | | |
| **2010** | **18,200** | **2,415** | **8,808** |
| 2009 | 15,660 | 4,267 | 8,769 |

Amounts owed by or to subsidiary undertakings are disclosed in notes 18 and 20. Any such amounts are unsecured and repayable on demand.

**Remuneration of key management personnel**

| | **2010 £'000** | 2009 £'000 |
|---|---|---|
| Short-term employee benefits | **4,172** | 3,924 |
| Post-employment benefits | **345** | 509 |
| Share-based payment | **139** | 579 |
| | **4,656** | 5,012 |

## Advisers

| | |
|---|---|
| **Secretary** | Malcolm Windeatt FCA |
| **Company Number** | 1074383 |
| **Registered Office** | 74 Helsinki Road<br>Sutton Fields<br>Hull<br>HU7 0YW |
| **Stockbrokers** | Investec Investment Banking – London<br>Brewin Dolphin Securities – Newcastle |
| **Registrars** | Capita IRG plc<br>Northern House<br>Woodsome Park<br>Fenay Bridge<br>Huddersfield<br>HD8 0GA |
| **Auditors** | Ernst & Young LLP – Hull |
| **Solicitors** | Rollits – Hull |
| **Bankers** | Lloyds TSB Bank plc<br>The Royal Bank of Scotland plc<br>Clydesdale Bank plc |
| **Merchant Bankers** | N M Rothschild & Sons – Leeds |

## Shareholder information

### Five year statement

| | **2010** | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| | **£'m** | £'m | £'m | £'m | £'m |
| Turnover * | **740.3** | 606.8 | 559.2 | 479.8 | 401.6 |
| Profit before tax * | **43.8** | 34.7 | 33.0 | 32.1 | 30.6 |
| Earnings per share * | **69.7p** | 40.5p | 51.9p | 49.3p | 50.3p |
| Dividends per share | **25.0p** | 21.7p | 19.9p | 18.1p | 16.5p |
| Capital expenditure | **20.5** | 21.2 | 25.8 | 11.8 | 14.3 |
| Net debt | **(54.7)** | (66.6) | (78.4) | (75.9) | (77.1) |
| Net assets | **193.6** | 166.5 | 155.3 | 135.8 | 112.4 |

**: Excludes discontinued Pet Division operations for all years presented.*

*Dividends per share relate to dividends declared in respect of that year.*

*Net debt is defined as per note 27 to the accounts.*

## Financial calendar

| | |
|---|---|
| Preliminary announcement of full year results | May |
| Publication of Annual Report | July |
| Annual General Meeting | July |
| Payment of final dividend | September |
| Announcement of interim results | November |
| Payment of interim dividend | January |

## Shareholder analysis

at 12 May 2010

| | Number of holdings | Number of shares |
|---|---|---|
| **Classification** | | |
| Private Shareholders | 1,161 | 5,888,003 |
| Corporate bodies and nominees | 732 | 41,450,356 |
| | 1,893 | 47,338,359 |
| **Size of holding (shares)** | | |
| 1 – 1,000 | 939 | 400,007 |
| 1,001 – 5,000 | 583 | 1,289,231 |
| 5,001 – 10,000 | 115 | 830,079 |
| 10,001 – 50,000 | 137 | 3,091,002 |
| 50,001 – 100,000 | 48 | 3,510,155 |
| Above 100,000 | 71 | 38,217,885 |
| | 1,893 | 47,338,359 |

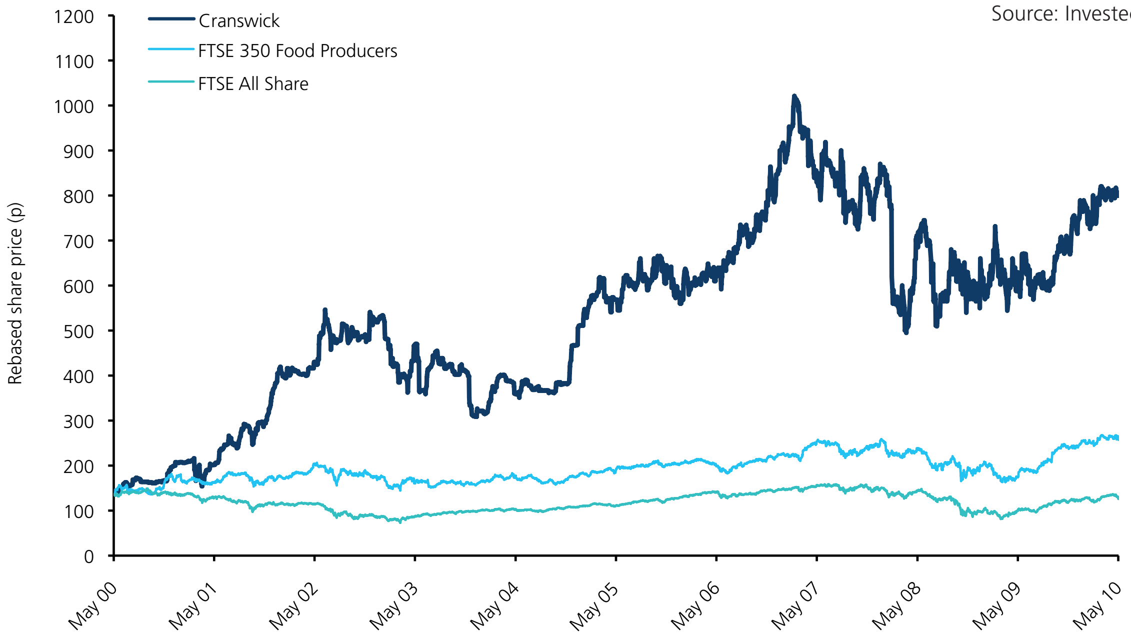
**Share price**

| | |
|---|---|
| Share price at 31 March 2009 | 544p |
| Share price at 31 March 2010 | 808p |
| High in the year | 820p |
| Low in the year | 569p |

**Share price movement**

Cranswick's share price movement over the ten year period to May 2010 and comparison against the FTSE 350 Food Producers and Processors Price Index ("FTSE FPP") and against the FTSE All Share Price Index ("FTSE All Share"), both rebased at May 2000, is shown below:

Source: Investec



# PRODUCTION FACILITIES

Fresh pork


Sausages

Bacon

Cooked meats