

COGENT BREEDING LIMITED

Report and Financial Statements

Year ended 31 December 2001

**Deloitte & Touche
Queen Anne House
69-71 Queen Square
Bristol
BS1 4JP**



REPORT AND FINANCIAL STATEMENTS 2001

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

J Kerr (appointed 1 January 2002) - Chairman
T J Heywood – Managing Director
M I Evington – Finance Director
N Coward (appointed 1 January 2002)
A R Dare (appointed 1 January 2002)
J O Hagger
M A Roach

SECRETARY

M I Evington

REGISTERED OFFICE

Woodhouse Farm
Aldford
Cheshire
CH3 6JD

BANKERS

National Westminster Bank plc
City of London Office
P O Box 12258
1 Princes Street
London
EC2R 8PA

SOLICITORS

Bremner Sons & Corlett
1 Crosshall Street
Liverpool
L1 6DH

AUDITORS

Deloitte & Touche
Queen Anne House
69-71 Queen Square
Bristol
BS1 4JP

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2001.

PRINCIPAL ACTIVITY

The principal activity of the company during the year was the production of breeding products for the dairy industry.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

Cogent continued to grow rapidly during the year generating world class breeding stock for the UK dairy industry.

The rate of investment and expansion is planned to continue in line with the long term strategic plan.

The Company continues to develop its investment to exploit leading edge technology in sexed semen and contribute to planned future growth.

The current losses incurred are part of the strategy for bringing the business to fulfilling its objectives.

RESULTS AND DIVIDENDS

The results of the company for the year are shown on page 5. The loss for the year was £2,819,992 (2000: loss of £2,906,874. The directors do not propose the payment of a dividend.

DIRECTORS AND THEIR INTERESTS

The directors of the company during the year were:


J O Hagger
T J Heywood
M A Roach
M I Evington (appointed 12 July 2001)

None of the company's directors had any interests in the shares or loan capital of the company, its ultimate parent company, or any of its fellow subsidiary undertakings required to be disclosed under the Companies Act 1985.

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board


M I Evington
Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COGENT BREEDING LIMITED

We have audited the financial statements of Cogent Breeding Limited for the year ended 31 December 2001 which comprise the profit and loss account, the balance sheet and related notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

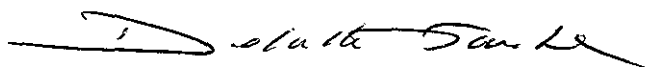
Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2001 and of the loss of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



DELOITTE & TOUCHE
Chartered Accountants and
Registered Auditors

29 May 2002

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2001

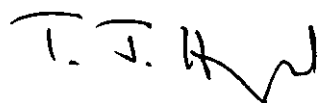
	Note	2001 £	2000 £
TURNOVER – continuing operations	1	4,979,673	2,967,520
Cost of sales		(6,869,915)	(5,173,463)
Gross loss		(1,890,242)	(2,205,943)
Administrative expenses		(1,149,944)	(700,931)
OPERATING LOSS – continuing operations	2	(3,040,186)	(2,906,874)
Net interest receivable	6	22	-
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(3,040,164)	(2,906,874)
Tax credit on loss on ordinary activities	7	220,172	-
RETAINED LOSS FOR THE FINANCIAL YEAR	15	(2,819,992)	(2,906,874)

The company had no recognised gains or losses in the current or preceding year other than those reported in the profit and loss account accordingly no Statement of total recognised gains and losses is presented.

BALANCE SHEET
At 31 December 2001

	Note	2001 £	2000 £
FIXED ASSETS			
Intangible assets	8	190,590	267,990
Tangible assets	9	2,837,380	3,432,291
Investments	10	1,175,630	1,175,630
		<u>4,203,600</u>	<u>4,875,911</u>
CURRENT ASSETS			
Stocks	11	1,502,767	1,623,593
Debtors	12	1,066,236	1,671,485
		<u>2,569,003</u>	<u>3,295,078</u>
CREDITORS: amounts falling due within one year	13	(2,768,960)	(10,846,354)
NET CURRENT LIABILITIES		<u>(199,957)</u>	<u>(7,551,276)</u>
NET ASSETS/(LIABILITIES)		<u>4,003,643</u>	<u>(2,675,365)</u>
CAPITAL AND RESERVES			
Called up share capital	14	9,500,000	1,000
Profit and loss account	15	(5,496,357)	(2,676,365)
SHAREHOLDERS' FUNDS	16	<u>4,003,643</u>	<u>(2,675,365)</u>

These financial statements were approved by the Board of Directors on 23 May 2002
Signed on behalf of the Board of Directors



T J Heywood
Director

NOTES TO THE ACCOUNTS
Year ended 31 December 2001**1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Cash flow statement

As a wholly owned subsidiary of Deva Group Limited (note 19), the company has taken advantage of the exemption to produce a cash flow statement. A consolidated cash flow statement is included in the group accounts.

Turnover

Turnover comprises net invoiced sales and work done during the year, excluding VAT.

Intangible fixed assets

Intangible fixed assets are stated at cost less aggregate amortisation less any impairment and are amortised on a straight line basis so as to spread their cost over their expected useful economic lives. The licence fee is amortised over four years.

Tangible fixed assets

Tangible fixed assets are stated at cost less aggregate depreciation less any impairment. Tangible fixed assets are depreciated on a straight line basis so as to spread their cost over their estimated useful economic lives at the following rates:

Tenants improvements and buildings	10% - 12½% per annum
Plant and equipment	12½% - 25% per annum

Bulls are written down to their residual value once semen collection has commenced.

Expenditure on roads and groundworks to buildings is not capitalised but is charged to the profit and loss account in the year in which the expenditure is incurred. In the opinion of the directors such expenditure does not add value to the leasehold property.

Fixed asset investments

Fixed asset investments are included in the balance sheet at cost less provision for impairment.

Leased assets

Rental costs under operating leases are charged to the profit and loss account in equal instalments over the period of the leases.

NOTES TO THE ACCOUNTS
Year ended 31 December 2001**1. ACCOUNTING POLICIES (continued)****Deferred taxation**

Deferred taxation is provided in respect of timing differences between recognition of income and expenditure for accounting and taxation purposes to the extent that it is considered probable that a tax liability or asset will crystallise in the foreseeable future.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost represents materials, direct labour and appropriate production overheads. Net realisable value is based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

Pension costs

The company participates in the Grosvenor Estates Pension Scheme ("GEPS"), a defined benefit pension scheme, and the Grosvenor Estate Money Purchase Scheme ("GEMPS"), a defined contribution pension scheme. Both schemes are maintained by the company's former ultimate parent undertaking, Grosvenor Group Holdings. Contributions are charged to the profit and loss account as they fall due.

Research and development expenditure

Research and development expenditure is charged to the profit and loss as incurred.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

Acquisitions

On the acquisition of a business, fair values are attributed to the net separable assets acquired. Where the cost of the acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and is capitalised in the balance sheet in the year of acquisition.

NOTES TO THE ACCOUNTS
Year ended 31 December 2001

2. OPERATING LOSS	2001	2000
	£	£
Operating loss is after charging:		
Royalty payments	431,213	73,157
Amortisation of intangible fixed assets	77,400	38,400
Depreciation of tangible fixed assets	710,723	401,042
Operating lease charges:		
For the hire plant and machinery	10,892	8,963
Rents payable for land and buildings	25,356	16,761
Audit fees	18,000	10,000
	<u> </u>	<u> </u>
3. INFORMATION REGARDING EMPLOYEES	2001	2000
	£	£
Employee costs during the year:		
Wages and salaries	1,803,540	1,543,262
Social security costs	159,780	146,897
Other pension costs	101,488	103,087
	<u>2,064,808</u>	<u>1,793,246</u>
	<u> </u>	<u> </u>
	2001	2000
	No.	No.
Average number of persons employed:		
Production	48	35
Sales and distribution	21	20
Administration	7	14
	<u>76</u>	<u>69</u>
	<u> </u>	<u> </u>

4. DIRECTORS' REMUNERATION

The directors are directors of the parent company, Grosvenor Farm Holdings Limited, and also of the fellow subsidiary companies Grosvenor Farms Limited and Eaton Park Farms Limited.

The directors received total emoluments of £308,246 (2000 - £200,964) from Grosvenor Farms Limited. 75% of their costs have been recharged to Cogent Breeding Limited. Pension benefits accrued to two directors during the current and previous year under the Grosvenor Group Holdings schemes in respect of their services to the four companies.

NOTES TO THE ACCOUNTS
Year ended 31 December 2001**5. PENSION SCHEME**

Cogent Breeding Limited does not maintain a separate group pension scheme. Its employees continue to be members of the Grosvenor Estates Pension Scheme (GEPS), a defined benefit pension scheme, or the Grosvenor Estate Money Purchase Scheme (GEMPS), a defined contribution pension scheme.

GEPS

Benefits are based on final pensionable remuneration. The scheme is funded, the assets being held by trustees.

The pension cost charge amounted to £28,174 (2000 - £28,248), representing the amount assessed in accordance with the advice of a qualified actuary as being appropriate to spread the cost of pensions over the working lives of employees, including directors, within the group.

The most recent actuarial valuation was carried out at 31 December 1999 using the projected unit funding method. The most important actuarial assumptions were that investment returns would be 0.5% to 1.5% above the rate of inflationary salary increases, 3.875% higher than the annual increases in present and future pensions in payment and that returns from equities (assumed to be the asset portfolio held before retirement and 50% of the portfolio held after retirement) would be 3.5% higher than the annual increase in dividend income over the relevant period.

At 31 December 1999, the market value of GEPS assets was £70.4m and the actuarial value of the assets was sufficient to cover 105% of the benefits that had accrued to members, after allowing for expected increases in earnings. The surplus of assets over liabilities is being amortised over an average service lifetime of 14 years, with the variation being calculated as a percentage of salary. From 1 January 2000, this resulted in a regular cost of 22.3% and a variation of 2.7%.

Although GEPS is a defined benefit scheme Cogent Breeding Limited is unable to identify its share of the underlying assets and liabilities. For this reason the company has applied paragraph 9(b) of the Financial Reporting Standard 17 "Retirement Benefits". However, the actuarial valuations have been updated as at 31 December 2001 by an independent qualified actuary in accordance with the basis set out in FRS17. These valuations indicate a surplus of £2.4m for the whole scheme. The directors do not consider there to be any material implications for the company as a result of this surplus.

GEMPS

Contributions are made by the employers and are invested in independently administered life assurance policies or pension plans.

The pension cost charge amounted to £73,314 (2000 - £163,834), representing employer's contributions payable for the year.

NOTES TO THE ACCOUNTS
Year ended 31 December 2001

6. NET INTEREST RECEIVABLE

	2001 £	2000 £
Interest receivable	22	-

7. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES

	2001 £	2000 £
Group relief	186,000	-
Adjustment to prior years' tax provisions	34,172	-
	220,172	-

Unrelieved taxation losses at 31 December 2001 amounted to approximately £4,220,000 (2000: £2,410,000).

8. INTANGIBLE FIXED ASSETS

	Licence fee £
Cost	
At 1 January 2001 and 31 December 2001	306,390
Amortisation	
At 1 January 2001	38,400
Charge for the year	77,400
At 31 December 2001	115,800
Net book value	
At 31 December 2001	190,590
At 31 December 2000	267,990

NOTES TO THE ACCOUNTS
Year ended 31 December 2001

9. TANGIBLE FIXED ASSETS

	Tenants improvements £	Plant and equipment £	Bulls £	Total £
Cost				
At 1 January 2001	1,581,495	2,370,969	342,400	4,294,864
Additions	-	136,012	129,600	265,612
Disposals	-	(46,821)	(149,800)	(196,621)
At 31 December 2001	1,581,495	2,460,160	322,200	4,363,855
Accumulated depreciation				
At 1 January 2001	331,978	530,595	-	862,573
Charge for the year	158,149	552,574	-	710,723
Disposals	-	(46,821)	-	(46,821)
At 31 December 2001	490,127	1,036,348	-	1,526,475
Net book value				
At 31 December 2001	1,091,368	1,423,812	322,200	2,837,380
At 31 December 2000	1,249,517	1,840,374	342,400	3,432,291

10. FIXED ASSET INVESTMENT

	2001 £	2000 £
At 1 January	1,175,630	751,220
Transfer from Grosvenor Farms Limited	-	424,410
At 31 December	1,175,630	1,175,630

11. STOCKS

	2001 £	2000 £
Livestock	594,744	781,416
Consumables	147,272	263,923
Goods for resale	760,751	578,254
	1,502,767	1,623,593

NOTES TO THE ACCOUNTS
Year ended 31 December 2001

12. DEBTORS

	2001 £	2000 £
Due within one year:		
Trade debtors	854,596	996,175
Amounts owed by group undertakings	-	112,980
UK Corporation tax: Group relief consideration available	186,000	558,930
Other debtors	3,500	2,800
Prepayments	22,140	600
	<u>1,066,236</u>	<u>1,671,485</u>

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £	2000 £
Bank overdraft	209,022	66,919
Trade creditors	62,291	468,909
Amounts owed to group companies	1,665,584	10,043,516
Taxation and social security	38,128	-
VAT payable	119,817	69,238
Deferred income	-	103,090
Accruals	674,118	94,682
	<u>2,768,960</u>	<u>10,846,354</u>

14. SHARE CAPITAL

	2001 £	2000 £
Authorised		
9,500,000 (2000: 1,000) ordinary shares of £1 each	<u>9,500,000</u>	<u>1,000</u>
Allotted, called up and fully paid		
9,500,000 (2000: 1,000) ordinary shares of £1 each	<u>9,500,000</u>	<u>1,000</u>

During the year the company issued 9,499,000 shares at par.

NOTES TO THE ACCOUNTS
Year ended 31 December 2001

15. PROFIT AND LOSS ACCOUNT

	2001 £	2000 £
Balance at 1 January	(2,676,365)	230,509
Loss for the financial year	(2,819,992)	(2,906,874)
Balance at 31 December	<u>(5,496,357)</u>	<u>(2,676,365)</u>

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001 £	2000 £
Loss for the financial year	(2,819,992)	(2,906,876)
Issue of share capital	9,499,000	-
Opening shareholders' funds	<u>(2,675,365)</u>	<u>231,511</u>
Closing shareholders' funds	<u>4,003,643</u>	<u>(2,675,365)</u>

17. COMMITMENTS FOR CAPITAL EXPENDITURE

	2001 £	2000 £
Annual commitments under operating leases which expire: Within one year – land and buildings	<u>25,356</u>	<u>16,761</u>

18. RELATED PARTY TRANSACTIONS

The company has applied the exemption granted by FRS8 "related party disclosures" not to disclose transactions with the Deva Group Limited, fellow subsidiaries of Deva Group Limited or any undertaking in which any member of the group holds an investment which would otherwise qualify as related parties.

During the year, the company paid rent and administrative charges totalling £13,000 (2000: £10,478) to a Grosvenor Trust whose trustees form a majority of the directors of the ultimate parent company.

In addition, the company paid management charges totalling £76,151 (2000: £37,729) during the year to a company within the Grosvenor Group Holdings. At the year end, there was no indebtedness between Cogent Breeding Limited and this company.

19. PARENT UNDERTAKING AND CONTROLLING PARTY

The company's ultimate parent undertaking and controlling party is Deva Group Limited, a company registered in England and Wales. Deva Group Limited is wholly owned by trusts and members of the Grosvenor family, headed by the Duke of Westminster.

Deva Group Limited heads the largest and smallest group of undertakings of which the company is a member and for which group accounts have been prepared for the year ended 31 December 2001.

Copies of the consolidated financial statements of Deva Group Limited can be obtained from Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ.