

**NATURES WAY FOODS
LIMITED**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 MARCH 1999



NATURES WAY FOODS LIMITED

FINANCIAL STATEMENTS

For the year ended 31 March 1999

Company registration number: 2896421

Registered office: Park Farm
Chichester Road
Selsey
West Sussex
PO20 9HP

Directors: R A Langmead
D W Langmead

Secretary: D W Langmead

Bankers: National Westminster Bank
5 East Street
Chichester
West Sussex
PO19 1HH

Solicitors: Thomas Eggar Church Adams
East Pallant
Chichester
West Sussex
PO19 1TS

Auditors: Grant Thornton
Registered auditors
Chartered accountants
Enterprise House
Isambard Brunel Road
Portsmouth
PO1 2RZ

NATURES WAY FOODS LIMITED

FINANCIAL STATEMENTS

For the year ended 31 March 1999

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NATURES WAY FOODS LIMITED

REPORT OF THE DIRECTORS

The directors present their report together with financial statements for the year ended 31 March 1999.

Principal activities

The company is principally engaged in the processing and wholesale distribution of food products.

Business review

There was a profit for the year after taxation amounting to £507,724 (1998: profit £579,987). The directors do not recommend payment of a dividend.

Directors

The present membership of the Board is set out below. All directors served throughout the year.

The interests of the directors and their families in the shares of the company as at 31 March 1999 and 1 April 1998, were as follows:

	Ordinary shares	
	31 March 1999	1 April 1998
R A Langmead	75,000	75,000
D W Langmead	75,000	75,000

Directors' responsibilities for the financial statements

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 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
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- 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 maintaining proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

NATURES WAY FOODS LIMITED

REPORT OF THE DIRECTORS

Year 2000 Compliance

Many computer systems which express dates using only the last two digits of the year may malfunction due to the date change to the Year 2000. This risk to the business relates not only to the company's computer systems, but also to some degree on those of the company's customers and suppliers.

The company has reviewed its electronic systems for the impact of the Year 2000 date change. An impact analysis has been prepared to identify the major risks, and action plans have been developed to address these in advance of critical dates. The plans give priority to the systems which could have a significant financial or legal impact if they were to fail.

The company has requested from major customers, suppliers and other trading partners with whom information is traded electronically, confirmation that their relevant systems are Year 2000 compliant.

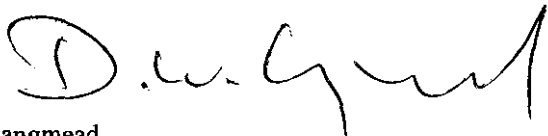
The issue is complex, and no business can guarantee that there will be no Year 2000 problems. However, the Board believes that its plans and the resources allocated are appropriate and adequate to address the issue.

External costs to address the issue are not expected to exceed £120,000, which has already been committed.

Auditors

Grant Thornton offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD



D W Langmead
Secretary
17 May 1999

**REPORT OF THE AUDITORS TO THE MEMBERS OF
NATURES WAY FOODS LIMITED**

We have audited the financial statements on pages 4 to 15 which have been prepared under the accounting policies set out on pages 4 to 5.

Respective responsibilities of directors and auditors

As described on page 1 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

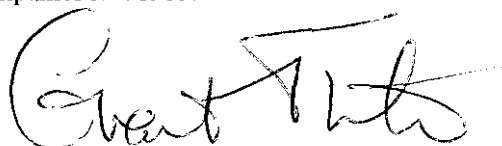
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. 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 the company's affairs as at 31 March 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS**

PORTSMOUTH
17 May 1999

NATURES WAY FOODS LIMITED

PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention

The principal accounting policies of the company have remained unchanged from the previous year and are set out below.

TURNOVER

Turnover is the total amount receivable by the company for goods supplied and services provided, excluding VAT and trade discounts.

DEPRECIATION

Depreciation is calculated to write down the cost or valuation less estimated residual value of all tangible fixed assets other than freehold land by equal annual instalments over their expected useful lives. The rates generally applicable are:

Freehold buildings	2%
Leasehold buildings	Over the term of the lease
Plant and machinery	33%
Motor vehicles	33%
Fixtures and fittings	33%

STOCKS

Stocks are stated at the lower of cost and net realisable value.

DEFERRED TAXATION

Deferred tax is provided for using the tax rates estimated to arise when the timing differences reverse and is accounted for to the extent that it is probable that a liability or asset will crystallise. Unprovided deferred tax is disclosed as a contingent liability.

CAPITALISATION OF FIXED ASSETS

Engineering tools and office equipment including computer hardware is not capitalised as the useful economic life of such assets is not certain.

CONTRIBUTIONS TO PENSION FUNDS

Defined contribution scheme

The pension costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

NATURES WAY FOODS LIMITED

PRINCIPAL ACCOUNTING POLICIES

LEASED ASSETS

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight-line basis over the lease term.

NATURES WAY FOODS LIMITED**PROFIT AND LOSS ACCOUNT**

For the year ended 31 March 1999

	Note	1999 £	1998 £
Turnover	1	14,498,851	10,176,474
Cost of sales		(12,909,404)	(7,558,203)
Gross profit		1,589,447	2,618,271
Administrative expenses		(954,464)	(1,819,726)
Other operating income		4,676	24,160
Operating profit		639,659	822,705
Interest receivable		69,706	62,682
Interest payable	2	(17,926)	(23,971)
Profit on ordinary activities before taxation	1	691,439	861,416
Tax on profit on ordinary activities	4	(183,715)	(281,429)
Profit transferred to reserves	12	507,724	579,987

There were no recognised gains or losses other than the profit for the financial year.

The accompanying accounting policies and notes form an integral part of these financial statements.

NATURES WAY FOODS LIMITED

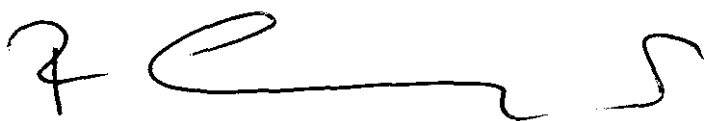
BALANCE SHEET AT 31 MARCH 1999

	Note	1999 £	1998 £
Fixed assets			
Tangible assets	5	4,929,344	1,311,453
Current assets			
Stocks	6	272,955	170,496
Debtors	7	2,500,997	701,100
Cash at bank and in hand		200	1,775,458
		<u>2,774,152</u>	<u>2,647,054</u>
Creditors: amounts falling due within one year	8	(4,049,725)	(2,584,460)
Net current liabilities		<u>(1,275,573)</u>	<u>62,594</u>
Total assets less current liabilities		<u>3,653,771</u>	<u>1,374,047</u>
Creditors: amounts falling due after more than one year	9	(1,740,000)	(268,000)
Provisions for liabilities and charges	10	(300,000)	-
		<u>1,613,771</u>	<u>1,106,047</u>
Capital and reserves			
Called up share capital	11	150,000	150,000
Profit and loss account	12	1,463,771	956,047
Shareholders' funds	13	<u>1,613,771</u>	<u>1,106,047</u>

The financial statements were approved by the Board of Directors on 17 May 1999.

R A Langmead

Director



The accompanying accounting policies and notes form an integral part of these financial statements.

NATURES WAY FOODS LIMITED**CASH FLOW STATEMENT**

For the year ended 31 March 1999

	Note	1999 £	1998 £
Net cash inflow from operating activities	15	416,643	2,964,920
Returns on investments and servicing of finance	16	51,780	38,711
Taxation		(278,715)	(203,381)
Capital expenditure and financial investment	16	(4,454,841)	(884,835)
		(4,265,133)	1,915,415
Financing	16	1,472,000	-
Decrease in cash	17	(2,793,133)	1,915,415

The accompanying accounting policies and notes form an integral part of these financial statements.

NATURES WAY FOODS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1999

1 TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit on ordinary activities is stated after:

	1999 £	1998 £
Auditors' remuneration	5,100	4,900
Tangible fixed assets, owned	836,950	722,069
Hire of equipment	40,385	26,569
Rental of premises	130,305	104,895
Other operating income includes: Rent receivable	4,676	24,160

2 NET INTEREST

	1999 £	1998 £
On bank loans and overdrafts	-	2,112
Other interest payable	17,926	21,859
Interest receivable	17,926 (69,706)	23,971 (62,682)
	(51,780)	(38,711)

3 DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows:

	1999 £	1998 £
Wages and salaries	1,921,504	1,671,696
Social security costs	175,590	88,145
Other pension costs	218,865	89,598
	2,315,959	1,849,439

The average number of employees of the company during the year were as follows:

	1999 Number	1998 Number
Management and administration	17	12
Other	163	80
	180	92

NATURES WAY FOODS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1999

Remuneration in respect of directors was as follows:

	1999 £	1998 £
Emoluments	112,580	688,744
Pension contributions to money purchase pension schemes	100,000	84,000
	212,580	772,744

Only one director received remuneration during the year.

4 TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge represents:

	1999 £	1998 £
UK Corporation tax at 31% (1998: 29.5%)	(115,000)	280,000
Deferred taxation	300,000	-
	185,000	280,000
Adjustments in respect of prior periods:		
Corporation tax	(1,285)	1,429
	183,715	281,429

5 TANGIBLE FIXED ASSETS

	Freehold land and buildings £	Leasehold land and buildings £	Plant and machinery £	Motor vehicles £	Fixtures and fittings £	Total £
Cost or valuation						
At 1 April 1998	125,000	-	2,591,143	94,415	95,346	2,905,904
Additions	-	75,000	4,289,203	74,218	16,420	4,454,841
	125,000	75,000	6,880,346	168,633	111,766	7,360,745
Depreciation						
At 1 April 1998	1,500	-	1,521,935	13,932	57,084	1,594,451
Provided in the year	2,500	-	757,098	42,195	35,157	836,950
	4,000	-	2,279,033	56,127	92,241	2,431,401
Net book amount at 31 March 1999	121,000	75,000	4,601,313	112,506	19,525	4,929,344
Net book amount at 31 March 1998	123,500	-	1,069,208	80,483	38,262	1,311,453

NATURES WAY FOODS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1999

6 STOCKS

	1999 £	1998 £
Raw materials	234,709	133,569
Finished goods and goods for resale	38,246	36,927
	<u>272,955</u>	<u>170,496</u>

7 DEBTORS

	1999 £	1998 £
Trade debtors	858,066	551,626
Other debtors	1,508,123	143,777
Taxation recoverable	115,000	-
Prepayments and accrued income	19,808	5,697
	<u>2,500,997</u>	<u>701,100</u>

8 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1999 £	1998 £
Bank loans and overdrafts	1,017,875	-
Trade creditors	1,527,214	670,741
Corporation tax	-	280,000
Social security and other taxes	67,726	43,387
Other creditors	963,121	1,206,234
Accruals and deferred income	473,789	384,098
	<u>4,049,725</u>	<u>2,584,460</u>

The bank overdrafts are secured by a fixed and floating charge over all of the company's assets.

The company on 29 January 1999 secured a medium term borrowing facility of £5.1 million with its bankers. This is to fund the continued expansion of its operating activities.

NATURES WAY FOODS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1999

9 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1999 £	1998 £
Bank and other loans	1,600,000	128,000
Loans from directors	140,000	140,000
	<u>1,740,000</u>	<u>268,000</u>

The bank loans are secured by a fixed and floating charge over the assets of the company.

	1999 £	1998 £
Within one year		
Bank overdraft	1,017,875	-
After one and within two years		
Directors and other loans	240,000	268,000
After two and within five years		
Bank and other loans	1,500,000	-
	<u>2,757,875</u>	<u>268,000</u>

10 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation £	Total £
Provided during the year	300,000	300,000
At 31 March 1999	<u>300,000</u>	<u>300,000</u>

Provision is in respect of accelerated capital allowances.

11 SHARE CAPITAL

	1999 £	1998 £
Authorised		
Ordinary shares of £1 each	<u>1,000,000</u>	<u>1,000,000</u>
Allotted, called up and fully paid		
Ordinary shares of £1 each	<u>150,000</u>	<u>150,000</u>

NATURES WAY FOODS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1999

12 RESERVES

	Profit and loss account £
At 1 April 1998	956,047
Retained profit for the year	507,724
At 31 March 1999	<u>1,463,771</u>

13 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1999 £	1998 £
Profit for the financial year	507,724	579,987
Net increase in shareholders' funds	<u>507,724</u>	<u>579,987</u>
Shareholders' funds at 1 April 1998	1,106,047	526,060
Shareholders' funds at 31 March 1999	<u>1,613,771</u>	<u>1,106,047</u>

14 PENSIONS

Defined Contribution Scheme

The company operates a defined contribution pension scheme for the benefit of the employees. The assets of the scheme are administered by trustees in a fund independent from those of the company.

15 NET CASH INFLOW/OUTFLOW FROM OPERATING ACTIVITIES

	1999 £	1998 £
Operating profit	639,659	822,705
Depreciation	836,950	722,069
Loss on sale of tangible fixed assets	-	(15,972)
Increase in stocks	(102,459)	(63,571)
Increase in debtors	(1,684,897)	(321,740)
Increase in creditors	727,390	1,821,429
Net cash inflow from continuing operating activities	<u>416,643</u>	<u>2,964,920</u>

NATURES WAY FOODS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1999

16 GROSS CASH FLOWS

	1999 £	1998 £
Returns on investments and servicing of finance		
Interest received	69,706	62,682
Interest paid	(17,926)	(23,971)
	<u>51,780</u>	<u>38,711</u>
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(4,454,841)	(975,835)
Sale of tangible fixed assets	-	91,000
	<u>(4,454,841)</u>	<u>(884,835)</u>
Financing		
Advancement of borrowings	<u>1,472,000</u>	<u>-</u>

17 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	1999 £	1998 £
(Decrease)/Increase in cash in the year	(2,793,133)	1,915,415
Cash inflow/(outflow) from financing in the year	(1,472,000)	-
Change in cash reserves and debt resulting from cashflows	<u>(4,265,133)</u>	<u>1,915,415</u>
Net funds at 1 April 1998	1,507,458	(407,957)
Net funds at 31 March 1999	<u>(2,757,675)</u>	<u>1,507,458</u>

18 ANALYSIS OF CHANGES IN NET DEBT

	At 1 April 1998 £	Cash flow £	At 31 March 1999 £
Cash in hand and at bank	1,775,458	(1,775,258)	200
Overdrafts	-	(1,017,875)	(1,017,875)
Debt	(268,000)	(1,472,000)	(1,740,000)
	<u>1,507,458</u>	<u>(4,265,133)</u>	<u>(2,757,675)</u>

NATURES WAY FOODS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1999

19 LEASING COMMITMENTS

Operating lease payments amounting to £119,400 (1998: £119,400) are due within one year. The leases to which these amounts relate expire as follows:

	1999		1998	
	Land and buildings £	Other £	Land and buildings £	Other £
In one year or less	-	5,000	-	2,640
Between one and five years	-	-	-	2,364
In five years or more	114,400	-	114,396	-
	<u>114,400</u>	<u>5,000</u>	<u>114,396</u>	<u>5,004</u>

20 CAPITAL COMMITMENTS

	1999 £	1998 £
Contracted for but not provided in these statements	<u>1,339,727</u>	<u>167,958</u>

21 CONTINGENT LIABILITIES

There were no contingent liabilities at 31 March 1999 or 31 March 1998.

22 RELATED PARTY TRANSACTIONS

In the course of normal operations, the company has contracted at arms length with D W Langmead and other related parties. The aggregate transactions totalled £4,343,977 (1998:£3,577,432), the outstanding balance due by the company at 31 March 1998 was £224,364 (1998 :£683,678) and the outstanding balance due to the companies was £31,232.

In addition to normal operations, the company made a loan during the year of £1million to Langmead Estates Limited, a company of which D.W.Langmead is a director, all of which was due at the balance sheet date. There is interest due at the balance sheet date of £10,088.