Registered No: 3473956

# Scotts Holdings Limited

# Annual Report

# for the year ended 30 September 2001

# Scotts Holdings Limited

# Annual report for the year ended 30 September 2001

## Contents

# Scotts Holdings Limited

## Directors and Advisors

### Directors

N Kirkbride
E Claggett
A van Winden

### Auditors

PricewaterhouseCoopers
The Atrium
St Georges Street
Norwich
NR3 1AG

### Secretary and registered office

Clifford Chance
200 Aldesgate Street
London
EC1A 4JJ

### Solicitors

Clifford Chance
200 Aldesgate Street
London
EC1A 4JJ

### Bankers

National Westminster Bank plc
2 Tavern Street
Ipswich
Suffolk
IP1 3BD

### Syndicated loan bankers

Chase Manhattan International
Trinity Tower
9 Thomas Moore Street
London
E1 9YT

# Directors' report
# for the year ended 30 September 2001

The directors present their report and the audited financial statements for the year ended 30 September 2001.

**Principal activities**
The principal activities of the group are the manufacture and sale of horticultural products.

**Review of business**
The consolidated profit and loss account for the year is set out on page 5.

The directors consider that the loss making position for the year will not continue and that the Group will return to a profitable position in future years.

**Dividends**
No dividends have been paid in the year (2000 : nil). The directors do not recommend a final dividend for the year ended 30 September 2001 (2000 : nil).

**Directors**
The directors who held office during the year and subsequently were as follows:

| | |
|---|---|
| M Reed | (resigned 27 October 2001) |
| E Claggett | |
| N Kirkbride | |
| A van Winden | (appointed 26 October 2001) |

The directors' beneficial interests in loan notes are as follows:

| Name | Company in which interest held | Loan Notes at 01.10.00 £'000 | Repaid in the year £'000 | Loan Notes at 30.09.01 £'000 |
|---|---|---|---|---|
| M Reed | OM Scott International Investments Limited | 17 | (17) | - |

No other director held any interests in Scotts Holdings Limited or its subsidiary undertakings.

**Employees**
The Group's policy is to consult and discuss with employees matters likely to affect employees' interests, and to encourage involvement in the Group's performance.

Information on matters of concern to employees is given through information bulletins and the in-house magazine to encourage common awareness of factors affecting the Group.

The Group's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person.

Arrangements are made, where possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

**Research and development**
The group is committed to research and development activities in order to secure its position as market leader.

**Statement of directors' responsibilities**
Company law requires the directors to prepare financial statements for each financial year that 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. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently with the exception of the changes arising on the adoption of new accounting standards in the year as explained on page 8 under Note 1 'Adoption of FRS 17/18'. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 30 September 2001 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and 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.

**Auditors**
A resolution to reappoint the auditors, PricewaterhouseCoopers, will be proposed at the next annual general meeting.

**By order of the board**

**A van Winden**
**Director**
25 October 2002

# Scotts Holdings Limited

## Independent auditors' report to the members of Scotts Holdings Limited

We have audited the financial statements, which comprise the consolidated profit and loss account, the balance sheets, the statement of recognised gains and losses, reconciliation in movement in shareholders' deficit and the related notes.

**Respective responsibilities of directors and auditors**

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

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 to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

**Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. 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 and the group at 30 September 2001 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

**PricewaterhouseCoopers**
Chartered Accountants and Registered Auditors
Norwich 29 October 2001

# Scotts Holdings Limited

## Consolidated profit and loss account for the year ended 30 September 2001

| | Notes | **2001 £'000** | 2000 £'000 |
|---|---|---|---|
| **Turnover – continuing operations** | 2 | **127,429** | 122,147 |
| Cost of sales | | **(68,822)** | (63,888) |
| Gross profit | | **58,607** | 58,259 |
| Distribution costs | | **(34,967)** | (33,785) |
| Administrative expenses | 5 | **(20,014)** | (18,668) |
| Other operating income | | **348** | 427 |
| **Operating profit from continuing operations** | | **3,974** | 6,233 |
| Interest receivable | | **479** | 167 |
| Interest payable and similar charges | 6 | **(9,004)** | (8,962) |
| **(Loss) on ordinary activities before taxation** | 7 | **(4,551)** | (2,562) |
| Tax on (loss) on ordinary activities | 8 | **(239)** | (1,013) |
| **(Loss) on ordinary activities after taxation** | | **(4,790)** | (3,575) |
| **Retained (loss) for the year** | 20 | **(4,790)** | (3,575) |

There is no difference between the (loss) on ordinary activities before taxation and the retained (loss) for the year stated above and their historical cost equivalents.

# Scotts Holdings Limited

## Reconciliation of movements in shareholders' deficit

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| (Loss) for the year | **(4,790)** | (3,575) |
| Exchange profit/(loss) on translation of overseas subsidiaries | **392** | (1,027) |
| Unrealised gain on part disposal of subsidiary | **-** | 620 |
| Opening shareholders' deficit | **(41,753)** | (37,771) |
| **Closing shareholders' deficit** | **(46,151)** | (41,753) |

## Statement of total recognised gains and losses

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| (Loss) for the year on ordinary activities after taxation | **(4,790)** | (3,575) |
| Currency translation differences on foreign net investments | **392** | (1,027) |
| Unrealised gain on part disposal of subsidiary | **-** | 620 |
| **Total recognised (losses) in the year** | **(4,398)** | (3,982) |

# Scotts Holdings Limited



# Balance sheets at 30 September 2001

| | Notes | Group 2001 £'000 | Company 2001 £'000 | Group 2000 £'000 | Company 2000 £'000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | 10 | **14,241** | **-** | 15,078 | - |
| Tangible assets | 11 | **18,411** | **-** | 18,285 | - |
| Investments | 12 | **-** | **39,758** | - | 39,758 |
| | | **32,652** | **39,758** | 33,363 | 39,758 |
| **Current assets** | | | | | |
| Stocks | 13 | **21,716** | **-** | 19,741 | - |
| Debtors: amounts falling due after one year | 14 | **116** | **-** | 121 | - |
| Debtors: amounts falling due within one year | 14 | **29,445** | **38,748** | 27,221 | 22,111 |
| Cash at bank and in hand | | **2,491** | **-** | 1,222 | - |
| | | **53,768** | **38,748** | 48,305 | 22,111 |
| Creditors: amounts falling due within one year | 15 | **(118,566)** | **(90,180)** | (94,555) | (70,318) |
| **Net current liabilities** | | **(64,798)** | **(51,432)** | (46,250) | (48,207) |
| ***Total assets less current liabilities*** | | **(32,146)** | **(11,674)** | (12,887) | (8,449) |
| Creditors: amounts falling due after more than one year | 16 | **(7,161)** | **-** | (25,709) | - |
| Provisions for liabilities and charges | 17 | **(6,844)** | **-** | (3,157) | - |
| **Net liabilities** | | **(46,151)** | **(11,674)** | (41,753) | (8,449) |
| ***Capital and reserves*** | | | | | |
| Called up share capital | 19 | **-** | **-** | - | - |
| Profit and loss account | 20 | **(46,151)** | **(11,674)** | (41,753) | (8,449) |
| **Deficit on equity shareholders' funds** | | **(46,151)** | **(11,674)** | (41,753) | (8,449) |

The financial statements on pages 5 to 26 were approved by the board of directors on 25 October 2002 and were signed on its behalf by:

**A van Winden**
**Director**

# Notes to the financial statements for the year ended 30 September 2001

## 1 Principal Accounting Policies

### Basis of Accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom. A summary of the more important accounting policies are set out below.

### Adoption of FRS 17/18

In November 2000, the Accounting Standards Board issued Financial Reporting Standard 17 'Retirement Benefits'. The group is adopting the transitional arrangements prescribed in the standard. The financial statements therefore reflect the transitional disclosures required by the standard.

In December 2000, the Accounting Standards Board issued Financial Reporting Standard 18 'Accounting Policies'. FRS 18 has been adopted by the group, and the directors have reviewed the appropriateness of the company's and group's accounting policies. As a result of this review, no changes to current accounting policies have been made.

### Going Concern

The financial statements have been drawn up on a going concern basis, as the parent company, Scotts Sierra Investments Inc. has provided a letter of support to enable Scotts Holdings Limited and subsidiary companies to meet their liabilities for at least 12 months from the date that the financial statements were approved.

### Cashflow and related party disclosures

The company is a wholly owned subsidiary of The Scotts Company, a company registered in the USA whose financial statements are publicly available. Consequently the company is exempt under the terms of Financial Reporting Standard No 1 (Revised) from publishing a cashflow statement. The company has also taken advantage of the exemption available under FRS 8 'Related party disclosures' not to disclose transactions with other group entities.

### Basis of Consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 30 September 2001. The results of subsidiaries acquired are included in the consolidated profit and loss account from the date of acquisition or when control is deemed to pass.

### Intangible assets

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off through the profit and loss account on a straight line basis over its useful economic life (20 years unless otherwise indicated). Historic purchased goodwill was written off immediately to reserves for accounting periods ending on or before 30 September 1998.

Capitalised brands are stated at cost and relate to the acquisition of product brands by Scotts Horticulture Limited. Acquired brands are only recognised where title is clear, brand earnings are separately identifiable and the brand could be sold separately from the rest of the business. Amortisation is calculated to write off the cost on a straight line basis over its useful economic life (20 years unless otherwise indicated).

### Tangible Fixed Assets

The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. Peatlands are written off on an extraction basis over their estimated economic life. The principal annual rates used for depreciation are:

| | % |
|---|---|
| Freehold Buildings | 2 - $3^1/_3$ |
| Plant and Machinery | 10 - 15 |
| Fixtures and Fittings | 10 - 15 |
| Computer Hardware and Software | 20 - $33^1/_3$ |

### Finance and Operating Leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements, which transfer to the Group substantially all the benefits and risks of ownership of an asset are treated as if the assets had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

### Stocks and Work in Progress

Stocks and work in progress are stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis and includes internal transport and handling costs. In the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity. Where necessary, provision is made for obsolete and slow moving stocks.

### Foreign Currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All foreign exchange differences are taken to the profit and loss account in the period in which they arise.

Exchange differences arising from the re-translation of the opening net assets of subsidiaries which have currencies of operation other than sterling are taken to reserves together with the differences arising when the profit and loss accounts are translated at average rates and compared with the rates ruling at year end.

### Turnover

Turnover, which excludes value added tax, sales between group companies and trade discounts, represents the invoiced value of goods and services supplied.

### Provisions

The Group makes provisions for liabilities and charges when it has a legal or constructive obligation arising from a past transaction or event in accordance with FRS 12 'Provisions, contingent liabilities and contingent assets.'

### Deferred Taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise in the future without being replaced.

### Pension Costs

The group operates three defined benefit pension schemes, which are contracted out of the state scheme. The funds are valued at least every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rates. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the group benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme.

The cost of defined contribution schemes in operation are charged to the profit and loss account as incurred.

### Research and Development

Research and development expenditure is written off as incurred.

### Agency income agreement

Income derived from all commission based agency agreements is included on a net basis in other operating income. All assets and liabilities relating to agency agreement sales are not included in these financial statements unless both the risks and rewards have substantially passed to the group.

## 2 Segmental analysis of turnover

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| **Geographical segment – by destination** | | |
| United Kingdom | **82,147** | 81,596 |
| Europe | **36,927** | 33,101 |
| Rest of the World | **8,355** | 7,450 |
| | **127,429** | 122,147 |

All sales originate from Europe, of which £86,279,000 (2000: £89,062,000) is from the United Kingdom.

£4,061,000 (2000: £2,156,000) of the above relates to sales to companies that are part of the global Scotts Company group.

## 3 Directors' emoluments

No director received or became entitled to emoluments from the company.

The following emoluments are in respect of services provided to the group:

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| Aggregate emoluments | **354** | 454 |
| Amounts receivable for loss of office | **-** | 146 |
| | **354** | 600 |

Retirement benefits are accruing to 2 directors (2000: 2) under the group's defined benefit scheme.

Emoluments payable to the highest paid director were as follows:

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| Aggregate emoluments | **235** | 201 |
| Accrued pension at period end | **11** | 5 |

## 4 Employee information

The average weekly number of persons (including executive directors) employed by the group during the year was as follows:

| | 2001 Number | 2000 Number |
|---|---|---|
| Production | **252** | 257 |
| Sales and Marketing | **167** | 150 |
| Administration (including management) | **162** | 155 |
| | **581** | 562 |

# Scotts Holdings Limited

Staff costs (for the above persons)

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| Wages and salaries | **15,904** | 15,049 |
| Social security costs | **1,451** | 1,360 |
| Pensions and post retirement benefits (see note 18) | **1,598** | 1,785 |
| | **18,953** | 18,194 |

## 5 Exceptional items

Exceptional items during the year relate to restructuring costs associated with streamlining UK and European operations. Exceptional items in the prior year relate to the closure of operations at Scotts' Swinefleet factory in Yorkshire. The major components of the exceptional expense that have been charged to administrative expenses are as follows:

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| Redundancy and related costs | **4,072** | 253 |
| Provision for write-down of certain fixed assets | **-** | 145 |
| Other restructuring costs | **89** | - |
| | **4,161** | 398 |

## 6 Interest payable and similar charges

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| On bank loans and overdrafts | **8,356** | 8,733 |
| On inter-company loans | **589** | 83 |
| On finance leases | **9** | 15 |
| On loan notes | **50** | 131 |
| | **9,004** | 8,962 |

## 7 (Loss) on ordinary activities before taxation

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| (Loss) on ordinary activities before taxation is stated after charging/(crediting): | | |
| Depreciation charge for the year | | |
| - Owned assets | **2,835** | 2,527 |
| - Leased assets | **39** | 64 |
| Amortisation of goodwill | **813** | 816 |
| Amortisation of brands | **21** | 17 |
| Auditors' remuneration for: | | |
| -Audit (Company: £20,000 ; 2000 : £20,000) | **209** | 200 |
| -Other services to the company and its UK subsidiaries | **89** | 72 |
| Loss on sale of fixed assets | **2** | 144 |
| Hire of plant and machinery | **1,513** | 1,424 |
| Hire of other assets | **801** | 691 |
| Research and development | **1,093** | 1,250 |

## 8 Tax on (loss) on ordinary activities

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| **United Kingdom taxation** | | |
| Corporation tax at 30% (2000 : 30%) | | |
| Deferred | **52** | 85 |
| Adjustment in respect of prior year | | |
| Current | **(84)** | - |
| Deferred | **197** | (302) |
| **Overseas taxation** | | |
| Corporate tax at local rates | **74** | 1,230 |
| | **239** | 1,013 |

The company has no tax charge for the year (2000: nil) and unrelieved tax losses of approximately £10,371,000 (2000: £8,132,000).

## 9 Loss for the financial year

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's loss after tax for the financial year was £3,225,000 (2000 : loss £3,002,000).

## 10 Intangible assets

### Group

| | Goodwill £'000 | Brands £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 October 2000 | 16,310 | 427 | 16,737 |
| Exchange differences | - | (3) | (3) |
| At 30 September 2001 | 16,310 | 424 | 16,734 |
| **Amortisation** | | | |
| At 1 October 2000 | 1,632 | 27 | 1,659 |
| Charge for the year | 813 | 21 | 834 |
| Exchange differences | - | - | - |
| At 30 September 2001 | 2,445 | 48 | 2,493 |
| **Net book value at 30 September 2001** | **13,865** | **376** | **14,241** |
| Net book value at 1 October 2000 | 14,678 | 400 | 15,078 |

The company has no intangible assets (2000 : nil).

## 11 Tangible fixed assets

### Group

| | Land & Buildings £'000 | Peatlands £'000 | Plant & Machinery £'000 | Fixtures & Fittings £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 October 2000 | 6,910 | 2,909 | 12,041 | 2,410 | 24,270 |
| Disposals | - | - | - | (133) | (133) |
| Additions | 962 | - | 1,697 | 210 | 2,869 |
| Transfers | (808) | (10) | 336 | 482 | - |
| Exchange differences | 87 | - | 90 | 7 | 184 |
| At 30 September 2001 | **7,151** | **2,899** | **14,164** | **2,976** | **27,190** |
| **Depreciation** | | | | | |
| At 1 October 2000 | 777 | 483 | 3,779 | 946 | 5,985 |
| Charge for year | 505 | 196 | 1,609 | 564 | 2,874 |
| Disposals | - | - | - | (113) | (113) |
| Exchange differences | 12 | - | 18 | 3 | 33 |
| At 30 September 2001 | **1,294** | **679** | **5,406** | **1,400** | **8,779** |
| **Net book value at 30 September 2001** | **5,857** | **2,220** | **8,758** | **1,576** | **18,411** |
| Net book value at 1 October 2000 | 6,133 | 2,426 | 8,262 | 1,464 | 18,285 |

Peatlands represent the cost of harvesting rights and clearance costs of peat moors.

Depreciation has not been charged on freehold land, which is included at a cost of £1,120,000 (2000: £1,120,000).

The net book value of plant and machinery includes an amount of £140,000 (2000: £179,000) in respect of assets held under finance leases.

### Company

Scotts Holdings Limited does not own any tangible fixed assets in its own right (2000: nil).

# Scotts Holdings Limited

## 12 Fixed asset investments

| Company | 2001 £'000 | 2000 £'000 |
|---|---|---|
| At 30 September | **39,758** | 39,758 |

### Interests in group undertakings

| Name of undertaking | Country of incorporation or registration | Principal Activity | Description of shares | Proportion of nominal value of issued shares held by: Group % | Company % |
|---|---|---|---|---|---|
| The Scotts Company (UK) Limited | England & Wales | Production and distribution of gardening products | Ordinary | 100 | - |
| Levington Trustees Limited | England & Wales | Dormant | Ordinary | 100 | - |
| Murphy Home & Garden Limited | England & Wales | Dormant | Ordinary | 100 | - |
| Levington Group Limited | England & Wales | Holding company | Ordinary | 100 | 100 |
| OM Scotts International Investments Limited | England & Wales | Holding company | Ordinary | 100 | 100 |
| Scotts Deutschland GmbH | Germany | Distribution of gardening products | Ordinary | 100 | - |
| Scotts International BV (formerly Scotts Europe BV) | Netherlands | Manufacture and distribution of gardening products | Ordinary | 100 | - |
| Levington Horticulture Limited | England & Wales | Dormant | Ordinary | 100 | - |
| O M Scott & Sons Limited | England & Wales | Distribution of gardening products | Ordinary | 100 | - |
| Scotts Italia srl | Italy | Distribution of gardening products | Ordinary | 95 | - |
| Miracle Garden Care Limited | England & Wales | Dormant | Ordinary | 100 | - |
| Miracle Holdings Limited | England & Wales | Dormant | Ordinary and preference | 100 | - |

# Scotts Holdings Limited

| | | | | | |
|---|---|---|---|---|---|
| Corwen Home & Garden Limited (formerly Phostrogen Limited) | England & Wales | Manufacture of garden fertilisers | Ordinary | 100 | - |
| The Scotts Company (Manufacturing) Limited | England & Wales | Manufacture of garden care products | Ordinary | 100 | - |
| Scotts Horticulture Limited | Ireland | Distribution of gardening products | Ordinary | 100 | 100 |
| Scott OM Espana SA | Spain | Distribution of gardening products | Ordinary | 100 | - |
| Scotts Profi Handels GmbH | Austria | Distribution of gardening products | Ordinary | 100 | - |

The above companies operate principally in their country of incorporation.

Scotts Profi Handels GmbH was founded on 29 March 2001.

All subsidiary undertakings are included in these consolidated financial statements.

## 13 Stocks

| | **Group 2001 £'000** | **Company 2001 £'000** | Group 2000 £'000 | Company 2000 £'000 |
|---|---|---|---|---|
| Raw materials and consumables | **7,884** | - | 7,576 | - |
| Work in progress | **5,481** | - | 3,809 | - |
| Finished goods and goods for resale | **8,351** | - | 8,356 | - |
| | **21,716** | - | 19,741 | - |

## 14 Debtors

| | Group 2001 £'000 | Company 2001 £'000 | Group 2000 £'000 | Company 2000 £'000 |
|---|---|---|---|---|
| **Amounts falling due after one year** | | | | |
| Prepayments | **116** | **-** | 121 | - |
| | **116** | **-** | 121 | - |
| **Amounts falling due within one year** | | | | |
| Trade debtors | **20,962** | **-** | 22,377 | - |
| Amounts due by group undertakings | **5,279** | **38,748** | 2,513 | 22,111 |
| VAT recoverable | **848** | **-** | 566 | - |
| Corporate tax recoverable | **275** | **-** | 415 | - |
| Other debtors | **343** | **-** | 507 | - |
| Prepayments and accrued income | **1,738** | **-** | 843 | - |
| | **29,445** | **38,748** | 27,221 | 22,111 |

## 15 Creditors: amounts falling due within one year

| | Group 2001 £'000 | Company 2001 £'000 | Group 2000 £'000 | Company 2000 £'000 |
|---|---|---|---|---|
| Bank loans and overdafts (see below) | **69,122** | **60,482** | 64,462 | 59,062 |
| Loan notes (see below) | **1,926** | **1,656** | 2,135 | 1,816 |
| Trade creditors | **10,505** | **-** | 12,244 | - |
| Amounts due to group undertakings | **25,583** | **26,741** | 7,240 | 9,184 |
| Obligations under finance leases | **39** | **-** | 30 | - |
| Corporation tax | **263** | **-** | 159 | - |
| Other taxation and social security | **74** | **-** | 354 | - |
| Other creditors | **162** | **-** | 111 | - |
| Accruals | **10,892** | **1,301** | 7,820 | 256 |
| | **118,566** | **90,180** | 94,555 | 70,318 |

Bank loans are part of the corporate borrowing facility arranged by The Scotts Company Inc. The facility is secured over the assets of The Scotts Company Inc.

Loan notes are repayable on demand and are secured with a letter of guarantee from the Chase Manhattan Bank and bear interest at a rate of 1% below LIBOR.

The loan notes were issued at par in the year ending 30 September 1998 for £5,283,000. This amount was fully received by the company.

## 16 Creditors: amounts falling due after more than one year

| | Group 2001 £'000 | Company 2001 £'000 | Group 2000 £'000 | Company 2000 £'000 |
|---|---|---|---|---|
| Bank loans | 6,955 | - | 25,571 | - |
| Obligations under finance leases | 86 | - | 138 | - |
| Accruals and deferred income | 120 | - | - | - |
| | 7,161 | - | 25,709 | - |

### Bank loans

| Repayable as follows: | Group 2001 £'000 | Company 2001 £'000 | Group 2000 £'000 | Company 2000 £'000 |
|---|---|---|---|---|
| In one year or less | 69,122 | 60,482 | 64,462 | 59,062 |
| Between one and two years | 2,119 | - | 5,565 | - |
| Between two and five years | 4,836 | - | 20,006 | - |
| In five years or more | - | - | - | - |
| | 76,077 | 60,482 | 90,033 | 59,062 |

Rates of interest on the bank loans varied depending on the origin of currency and percentage points above local base rate. The bank loans form part of a secured corporate borrowing facility arranged by The Scotts Company.

### Finance leases

| | Group 2001 £'000 | Company 2001 £'000 | Group 2000 £'000 | Company 2000 £'000 |
|---|---|---|---|---|
| The net finance lease obligations to which the group is committed are amounts falling due in: | | | | |
| Less than one year | 39 | - | 30 | - |
| Between two and five years inclusive | 86 | - | 138 | - |
| | 125 | - | 168 | - |

## 17 Provisions for liabilities and charges

| Group | Pensions (note 18) £'000 | Environ-mental Provisions £'000 | Restructure and Integration £'000 | Deferred Tax £'000 | Total £'000 |
|---|---|---|---|---|---|
| At 1 October 2000 | 1,330 | 994 | 544 | 289 | 3,157 |
| Profit and loss account | (114) | - | 4,161 | 249 | 4,296 |
| Utilised in year | 116 | (273) | (462) | - | (619) |
| Exchange differences | 10 | - | - | - | 10 |
| **At 30 September 2001** | **1,342** | **721** | **4,243** | **538** | **6,844** |

It is anticipated that the restructuring provision will be used within one year.

### Environmental Provision

The environmental provision, which was acquired with the acquisition of the Levington Group on 12 December 1997, relates to a number of required remedial works at certain UK sites.

It is anticipated that the environmental provision will be utilised as follows:

| | **2001** | 2000 |
|---|---|---|
| | **£'000** | £'000 |
| Within one year | **375** | 272 |
| Between two and five years | **346** | 722 |
| | **721** | 994 |

### Deferred Tax

The deferred taxation recognised in the financial statements and the amount unprovided of the total potential liability/(asset) are as follows.

| | **Group Amount provided 30 Sept 2001 £'000** | **Group Amount unprovided 30 Sept 2001 £'000** | Group Amount Provided 30 Sept 2000 £'000 | Group Amount unprovided 30 Sept 2000 £'000 |
|---|---|---|---|---|
| Tax effect of timing differences: | | | | |
| Excess of tax allowances over depreciation | 341 | 166 | 289 | 228 |
| Losses | - | (4,769) | - | (3,490) |
| Other | 197 | (365) | - | (338) |
| | 538 | (4,968) | 289 | (3,600) |

### Company

The company has no provisions for liabilities and charges. Unrecognised deferred tax losses are approximately £3,111,000 (2000: £2,440,000).

## 18 Pensions

The group operates three defined benefit pension schemes in Europe. The assets of the schemes are held in separate trustee administered funds.

***The Scotts Company (UK) Pension Scheme***

The pension cost for the company for the year ending 30 September 2001 was £631,000 including variation from actual contributions of £119,000 favourable (2000 : £949,000 variations £686,000 adverse). A provision of £1,002,000 (2000: £1,121,000) is included in provisions for liabilities and charges, representing the excess of the accumulated pension cost over the amount of contributions funded during the year (see note 17).

The pension cost is assessed in accordance with the advice of an independent qualified actuary using the market value methodology. The latest actuarial valuation of the scheme was on 1 July 2000. The assumptions that have the most significant effect on the valuation are those relating to the rate of return on investments, rate of increase in dividends and the rates of increase in salaries and pensions. It was assumed that the investment return would be 6.5% per annum, dividend increases would be 4% per annum, that salary increases would average 4.5% per annum and that present and future pensions would increase at the rate of 2.5% per annum.

The pension scheme value at the date of valuation amounted to £28,970,000. The actuarial value of the assets of the scheme was sufficient to cover 130% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

***Transitional disclosures required by FRS17***

The latest formal valuation of the Scheme was carried out as at 1 July 2000. The valuation of liabilities detailed below has been derived by projecting forward the position from 1 July 2000 to 30 September 2001.

Contributions to the scheme over the year ending 30 September 2001 were paid as follows:

| | **Up to 28 February 2001** | **From 1 March 2001** |
|---|---|---|
| | **% Pensionable Pay** | **% Pensionable Pay** |
| Company | 4.5 | 13.5 |
| Members | 4.5 | 4.5 |

FRS17 gives the present value of pension liabilities by discounting pension commitments, including salary growth, at an AA corporate bond yield. The FRS17 value of liabilities at 30 September 2001 was approximately £26,236,000 and the market value of assets was £21,837,000, giving a Scheme deficit of £4,399,000.

In calculating the liabilities of the Scheme, the following financial assumptions have been used:

| | |
|---|---|
| Discount rate | 6.00% pa |
| Pay growth | 4.00% pa |
| RPI | 2.50% pa |
| Pension-in payment increases | 2.50% pa |
| Deferred pension increases | 2.50% pa |

The market value of the assets of the Scheme as at 30 September 2001 together with the expected rate of return over the following year is as follows:

| | Expected Return (% pa) | £'000 |
|---|---|---|
| Equities | 7.5% | 19,872 |
| Bonds | 5.5% | 1,747 |
| Other | 5.0% | 218 |
| Market value of scheme assets | | 21,837 |
| Present value of scheme liabilities | | (26,236) |
| Deficit in scheme | | (4,399) |
| Related deferred tax asset | | 1,320 |
| Net pension liability | | (3,079) |

***The Miracle Garden Company Pension Scheme***

The scheme operates providing benefits based on final pensionable earnings. The pension costs are assessed by a qualified actuary and are charged to the profit and loss account so as to spread those costs over the employees' working lives with the employer.

The most recent valuation of the scheme was carried out as at 5 April 2000. The method used to conduct the valuation was the attained age method and a market-related approach was adopted.

The main assumptions used in the valuation and in the determination of the pension cost were a pre-retirement investment rate of return of 7% per annum, a post-retirement investment rate of 5.5% per annum, a long term rate of growth in pensionable earnings of 4.5% per annum and increases to pensions in payment of 2.75% per annum. The valuation also took into account updated mortality tables.

At the valuation date the market value of the assets of the scheme under the above assumptions was £11,500,000 which, at that date, represented 111% of the value of the benefits that had accrued to members, after allowing for expected future increases in earnings.

The pension cost for the employer for the financial period ending 30 September 2001 was £357,000 (2000: £355,000). There is a provision of £8,000 (2000: prepayment of £21,000) in the employer's balance sheet as at 30 September 2001 arising from the accumulated difference between the contributions paid to the scheme and the corresponding pension costs.

***Transitional disclosures required by FRS17***

The latest formal valuation of the Scheme was carried out as at 5 April 2000. The valuation of liabilities detailed below has been derived by projecting forward the position from 5 April 2000 to 30 September 2001.

Contributions over the year ending 30 September 2001 were paid as follows:

| | **Up to 31 March 2001 % Pensionable Pay** | **From 1 April 2001 % Pensionable Pay** |
|---|---|---|
| Company | 14.3 | 17.6 |
| Members (average) | 3.4 | 4.4 |

The revised contribution rate has been derived using a funding method, which recognises that the Scheme is closed to new entrants and whose active membership can therefore be expected to exhibit a steadily increasing average age profile.

FRS17 gives the present value of pension liabilities by discounting pension commitments, including salary growth, at an AA corporate bond yield. The FRS17 value of liabilities at 30 September 2001 was approximately £11,424,000 and the market value of assets was £9,320,000, giving a Scheme deficit of £2,104,000.

In calculating the liabilities of the Scheme, the following financial assumptions have been used:

| | |
|---|---|
| Discount rate | 6.10% pa |
| Pay growth | 4.25% pa |
| RPI | 2.50% pa |
| Pension-in payment increases | 2.50% pa |

Deferred pensions are revalued to retirement age in line with statutory requirements.
The market value of the assets of the Scheme as at 30 September 2001 together with the expected rate of return over the following year is as follows:

| | **Expected Return (% pa)** | **£'000** |
|---|---|---|
| Equities | 7.0 | 7,094 |
| Bonds | 5.5 | 1,941 |
| Other | 5.0 | 285 |
| Market value of scheme assets | | 9,320 |
| Present value of scheme liabilities | | (11,424) |
| Deficit in scheme | | (2,104) |
| Related deferred tax asset | | 631 |
| Net pension liability | | (1,473) |

***Foreign schemes***

Pension costs relating to foreign schemes are charged in accordance with local best practice using different accounting policies. The group's largest foreign scheme is in the Netherlands, which is of the defined benefit type and which requires contributions to be made to a separately administered fund. This scheme is accounted for using the applicable Dutch accounting standard. The cost of obtaining actuarial valuations for the purpose of adjusting to the applicable UK accounting standard is considered to be out of proportion to the benefits to be gained. The pension cost for foreign schemes during the year was £610,000 (2000: £481,000) and a balance of £332,000 (2000: £346,000) is included in provisions for liabilities and charges. The pension cost is based on contribution rates dictated to Scotts International BV by the pension actuary.

***Transitional disclosures required by FRS17***

The group operates one defined scheme in the Netherlands. An actuarial valuation was carried out as at 30 September 2001 and updated by independent qualified actuaries in accordance with FRS17. The major assumptions used by the actuary were:

| | |
|---|---|
| Discount rate | 6% pa |
| Pay growth | 3% pa |
| RPI | 2% pa |
| Pension-in payment increases | 2% pa |

The assets of the scheme comprise totally of bonds, the expected return being 6%. Employer's contributions are 5% of gross pay.

The following amounts at 30 September 2001 were measured in accordance with the requirements of FRS17.

| | **2001** <br> **£'000** |
|---|---|
| Total market value of scheme assets | 2,546 |
| Present value of scheme liabilities | (3,540) |
| Deficit in the scheme | (994) |
| Related deferred tax asset | 348 |
| Net pension liability | (646) |

If the above amounts had been recognised in the financial statements, the group's net liabilities and profit and loss reserve at 30 September 2001 would be as follows:

| **Net Liabilities and Reserves** | **£'000** |
|---|---|
| Net liabilities/reserves excluding pension liability | (46,151) |
| Pension scheme liabilities under SSAP 24 | 1,342 |
| Pension scheme liabilities under FRS17 | (5,198) |
| Net liabilities/reserves including pension liability | (50,007) |

The cost of foreign defined contribution scheme charges amounted to £48,000 (2000: £63,000).

# Scotts Holdings Limited

## 19 Share capital

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| Authorised 6 Ordinary shares of £1 each | - | - |
| Allotted, called up and fully paid: | | |
| 6 Ordinary shares of £1 each | - | - |

## 20 Reserves

### Group

| | Profit and Loss Account £'000 |
|---|---|
| At beginning of year | (41,753) |
| Retained loss for the year | (4,790) |
| Currency translation differences | 392 |
| At 30 September 2001 | (46,151) |

Positive purchased goodwill arising prior to the implementation of FRS 10 eliminated against Group profit and loss reserves totals £36,082,000 (2000 : £36,082,000). This will be charged in the profit and loss account on subsequent disposal of the business to which it relates.

### Company

| | Profit and Loss Account £'000 |
|---|---|
| At beginning of year | (8,449) |
| Retained loss for the year | (3,225) |
| At 30 September 2001 | (11,674) |

## 21 Capital commitments

| | Group 2001 £'000 | Company 2001 £'000 | Group 2000 £'000 | Company 2000 £'000 |
|---|---|---|---|---|
| Contracted but not provided for | 333 | - | - | - |
| | 333 | - | - | - |

## 22 Contingent liability

The group has a contingent liability in relation to a VAT bond with the group's bankers. As at 30 September 2001, this amounted to £240,000 (2000 : £240,000). Other bank guarantees amounted to £54,000 (2000: nil).

## 23 Financial commitments

At 30 September 2001 the group had annual commitments under non-cancellable operating leases as follows:

| | **Land and Buildings** | **Other** | Land and Buildings | Other |
|---|---|---|---|---|
| | **2001** | **2001** | 2000 | 2000 |
| | **£'000** | **£'000** | £'000 | £'000 |
| Expiring within one year | **21** | **980** | - | 493 |
| Expiring between two and five years inclusive | **247** | **772** | 618 | 1,017 |
| | **268** | **1,752** | 618 | 1,510 |

## 24 Other contingency

In April 2002, the Group and one of its subsidiary companies, The Scotts Company (UK) Limited agreed the early handover of a large area of UK peatland to English Nature for regeneration.

The Scotts Company (UK) Limited has agreed to discontinue harvesting peat from four sites immediately and will cease extraction on half of the Hatfield Moors with the remainder being handed over to English Nature by September 2004. The company will receive over the length of the agreement total consideration of £18,320,000 representing the assignment of the interest in land, compensation for not harvesting, sale of existing peat stock and restoration.

The company has access to adequate supplies of growing media to ensure demand is met for company products for the foreseeable future.

## 25 Ultimate controlling party

The company is a subsidiary undertaking of The Scotts Company incorporated in the state of Ohio. The Scotts Company is considered by the directors to be the ultimate controlling party.

The largest group in which the results of the company are consolidated is headed by The Scotts Company. The consolidated accounts of The Scotts Company are available to the public and may be obtained from The Scotts Company, 14111 Scottslawn Road, Marysville, Ohio 43041 USA.

The immediate controlling party is considered to be Scotts Sierra Investments Inc. incorporated in the US by virtue of their interest in 100% of the equity of Scotts Holdings Limited.

## 26 Related party transactions

During the year, a director held loan notes with the company. These are disclosed in the Directors' Report on page 2. The loan notes carried a fixed rate of interest which was charged at a commercial rate.

The Company has taken advantage of the exemption available under Financial Reporting Standard No 8 "Related Party disclosures" not to disclose transactions with other group companies where these have been eliminated on consolidation. In addition, the company has taken advantage of a further exemption available under FRS 8 not to disclose transactions with other group companies as the company is a 100% owned subsidiary of The Scotts Company whose financial statements are publicly available.