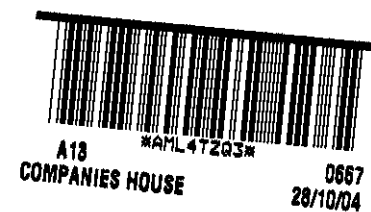


Registered No: 3473956

Scotts Holdings Limited
Annual Report
for the year ended 30 September 2003



Scotts Holdings Limited

Annual report for the year ended 30 September 2003

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Scotts Holdings Limited

1

Directors and Advisors

Directors

J Wyatt
E Claggett
A van Winden

Auditors

PricewaterhouseCoopers LLP
The Atrium
St Georges Street
Norwich
NR3 1AG

Secretary and registered office

Clifford Chance LLP
10 Upper Bank Street
London
EC14 5JJ

Solicitors

Clifford Chance LLP
10 Upper Bank Street
London
EC14 5JJ

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 2003

The directors present their report and the audited financial statements for the year ended 30 September 2003.

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 the operating result for the year to be satisfactory and that the present level of activity will be sustained for the foreseeable future.

Results and dividends

The Group's profit for the year is £1,581,000 (2002: £9,115,000) which has been transferred to reserves. No dividends have been paid in the year (2002: nil). The directors do not recommend a final dividend for the year ended 30 September 2003 (2002: nil).

Directors

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

E Claggett	
N Kirkbride	(resigned 29 November 2002)
A van Winden	
J Wyatt	(appointed 29 November 2002)

No director held any disclosable interests in the company 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 the group and of the profit or loss of the group for that year. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company and group will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 30 September 2003 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 the group, 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the board



A van Winden

Director

22 October 2004

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 total recognised gains and losses, the 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. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and 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.

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 2003 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Norwich

25 October 2004

**Consolidated profit and loss account
for the year ended 30 September 2003**

	Notes	2003 £'000	2002 £'000
Turnover	2	135,873	124,952
Cost of sales		<u>(72,932)</u>	<u>(66,317)</u>
Gross profit		62,941	58,635
Distribution costs		(38,352)	(34,472)
Administrative expenses (excluding exceptional items)		(14,622)	(17,117)
Exceptional items	5	(2,335)	(1,667)
Other operating income		<u>230</u>	<u>355</u>
Operating profit		7,862	5,734
Profit on sale of fixed assets		-	13,634
Interest receivable		299	226
Interest payable and similar charges	6	<u>(4,683)</u>	<u>(6,852)</u>
Profit on ordinary activities before taxation	7	3,478	12,742
Tax on profit on ordinary activities	8	<u>(1,897)</u>	<u>(3,627)</u>
Profit for the financial year	9	<u>1,581</u>	<u>9,115</u>
Retained profit for the year	20	<u>1,581</u>	<u>9,115</u>

All results are derived from continuing operations.

Reconciliation of movements in shareholders' deficit

	2003	2002
	£'000	£'000
Opening shareholders' deficit	(33,700)	(43,088)
Profit for the year	1,581	9,115
Currency translation differences on foreign net investments	1,499	273
Closing shareholders' deficit	<u>(30,620)</u>	<u>(33,700)</u>


Statement of total recognised gains and losses

	2003	2002
	£'000	£'000
Profit for the year on ordinary activities after taxation	1,581	9,115
Currency translation differences on foreign net investments	1,499	273
Total recognised gains in the year	<u>3,080</u>	<u>9,388</u>

Balance sheets at 30 September 2003

		Group	Company	Group	Company
		2003	2003	2002	2002
	Notes	£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	10	12,663	-	13,435	-
Tangible assets	11	16,059	-	15,709	-
Investments	12	-	39,758	-	39,758
		28,722	39,758	29,144	39,758
Current assets					
Stocks	13	21,275	-	19,620	-
Debtors: amounts falling due after one year	14	101	-	113	-
Debtors: amounts falling due within one year	14	28,022	27,658	27,814	31,090
Cash at bank and in hand		1,192	-	13,103	-
		50,590	27,658	60,650	31,090
Creditors: amounts falling due within one year	15	(97,111)	(75,664)	(97,377)	(69,233)
Net current liabilities		(46,521)	(48,006)	(36,727)	(38,143)
Total assets less current liabilities		(17,799)	(8,248)	(7,583)	1,615
Creditors: amounts falling due after one year	16	(10,581)	(8,184)	(21,517)	(16,503)
Provisions for liabilities and charges	17	(2,240)	-	(4,600)	-
Net liabilities		(30,620)	(16,432)	(33,700)	(14,888)
Capital and reserves					
Called up share capital	19	-	-	-	-
Profit and loss account	20	(30,620)	(16,432)	(33,700)	(14,888)
Deficit on equity shareholders' funds		(30,620)	(16,432)	(33,700)	(14,888)

The financial statements on pages 5 to 32 were approved by the board of directors on 22 October 2004 and were signed on its behalf by:


A van Winden
Director

**Notes to the financial statements
for the year ended 30 September 2003****1 Principal Accounting Policies****a) 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.

b) Going concern

The financial statements have been drawn up on a going concern basis, as the immediate parent company, Scotts Sierra Investments Inc., has provided a letter of support confirming that it will provide sufficient support so as to allow Scotts Holdings Limited and subsidiary companies to meet their liabilities as they fall due for a period of at least 12 months from the date that these financial statements were approved.

c) 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.

d) 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 2003. 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.

e) 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 of up to 20 years. Historically 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 brand earnings are separately identifiable and the brand could be sold separately from the rest of the business.

f) Tangible fixed assets

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

Other than in respect of peatlands, 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. The principal annual rates used for depreciation are:

	%
Freehold buildings	2 - 3 $\frac{1}{3}$
Plant and machinery	10 - 15
Fixtures and fittings	10 - 15
Computer hardware and software	20 - 33 $\frac{1}{3}$

Freehold land is not depreciated.

Peatlands are written off on an extraction basis.

g) 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 end. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

h) 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.

i) 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.

j) Turnover

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

k) 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.'

l) 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.

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

m) Research and development

Research and development expenditure is written off as incurred.

n) 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

	2003 £'000	2002 £'000
Geographical segment – by destination		
United Kingdom	82,330	81,495
Europe	45,613	36,068
Rest of the World	7,930	7,389
	<u>135,873</u>	<u>124,952</u>

All sales originate in Europe, including £86,543,000 (2002: £84,648,000) which originates in the United Kingdom.

£4,427,000 (2002: £1,652,000) of the above relates to sales to companies that are part of The Scotts Company group.

The entity has only one class of business.

In the opinion of the directors the disclosure of segmental information relating to net assets and profit before taxation would be prejudicial to the interests of the group, this has therefore not been disclosed.

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:

	2003 £'000	2002 £'000
Aggregate emoluments	<u>839</u>	<u>574</u>

Retirement benefits are accruing to 2 directors (2002: 2) under the group's defined benefit scheme.

Emoluments payable to the highest paid director were as follows:

	2003 £'000	2002 £'000
Aggregate emoluments	439	287
Accrued pension at period end	<u>5</u>	<u>17</u>

4 Employee information

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

	2003 Number	2002 Number
Production	183	245
Sales and Marketing	147	147
Administration	141	159
	<u>471</u>	<u>551</u>

Staff costs (for the above persons)

	2003 £'000	2002 £'000
Wages and salaries	16,423	15,498
Social security costs	1,690	1,394
Pensions and post retirement benefits (see note 18)	1,807	1,679
	<u>19,920</u>	<u>18,571</u>

5 Administrative expenses - 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 consolidation of operations. The components of the exceptional expense that have been charged to administrative expenses are as follows:

	2003 £'000	2002 £'000
Redundancy and related costs	2,668	2,528
Release of prior year provisions	(333)	(861)
	<u>2,335</u>	<u>1,667</u>

6 Interest payable and similar charges

	2003 £'000	2002 £'000
Bank loans and overdrafts	3,508	6,041
Inter-company loans	1,141	792
Finance leases	3	11
Loan notes	31	8
	<u>4,683</u>	<u>6,852</u>

7 Profit on ordinary activities before taxation

	2003 £'000	2002 £'000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation charge for the year		
- Owned assets	2,610	2,954
- Leased assets	39	39
Amortisation of goodwill	813	813
Amortisation of brands	-	15
Auditors' remuneration for:		
-Audit (Company: £27,000; 2002: £25,000)	168	183
-Other services to the company and its UK subsidiaries	39	160
Hire of plant and machinery	1,343	1,105
Hire of other assets	991	924
Research and development	1,481	1,098

8 Tax on profit on ordinary activities

	2003 £'000	2002 £'000
Corporation tax at 41% (2002: 7%)		
- UK corporation tax		
- current year	(141)	443
- under/(over) provision in prior years	53	(101)
- overseas	1,509	544
	1,421	886
Deferred tax		
- current year	635	2,877
- over provision in prior years	(159)	(136)
	476	2,741
	1,897	3,627

The current tax charge for the period differs from the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	2003 £'000	2002 £'000
Profit on ordinary activities before tax	3,478	12,742
Profit on ordinary activities multiplied by standard rate of corporation tax of 30% (2002: 30%)	1,043	3,823
Effects of:		
Permanent differences	291	289
Short term timing differences	(566)	460
Depreciation in excess of accelerated capital allowances	90	80
Utilisation of brought forward recognised losses	-	(3,204)
Utilisation of previously unrecognised brought forward losses	(96)	(730)
Losses incurred not recognised	463	110
Other timing differences	-	(77)
Higher tax rates on overseas earnings	196	135
Current tax charge for the year	1,421	886

9 Profit 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 £1,544,000 (2002: loss £6,332,000).

10 Intangible assets

Group

	Goodwill £'000	Brands £'000	Total £'000
Cost			
At 1 October 2002	16,310	449	16,759
Exchange differences	-	50	50
At 30 September 2003	16,310	499	16,809
Amortisation			
At 1 October 2002	3,258	66	3,324
Charge for the year	813	-	813
Exchange differences	2	7	9
At 30 September 2003	4,073	73	4,146
Net book value at 30 September 2003	12,237	426	12,663
Net book value at 1 October 2002	13,052	383	13,435

The company has no intangible assets (2002: nil).

11 Tangible fixed assets

Group

	Land & Buildings £'000	Peatlands £'000	Plant & Machinery £'000	Fixtures & Fittings £'000	Total £'000
Cost					
At 1 October 2002	5,947	1,922	16,400	2,800	27,069
Disposals	(1,153)	-	(3,616)	(10)	(4,779)
Additions	50	-	3,662	197	3,909
Transfers	97	-	(110)	13	-
Exchange differences	341	-	417	66	824
At 30 September 2003	5,282	1,922	16,753	3,066	27,023
Depreciation					
At 1 October 2002	1,143	805	7,572	1,840	11,360
Charge for year	301	295	1,520	533	2,649
Disposals	(602)	-	(2,717)	(8)	(3,327)
Exchange differences	86	-	168	28	282
At 30 September 2003	928	1,100	6,543	2,393	10,964
Net book value at 30 September 2003	4,354	822	10,210	673	16,059
Net book value at 1 October 2002	<u>4,804</u>	<u>1,117</u>	<u>8,828</u>	<u>960</u>	<u>15,709</u>

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

The net book value of plant and machinery includes an amount of £62,000 (2002: £101,000) in respect of assets held under finance leases.

Company

Scotts Holdings Limited has no tangible fixed assets (2002: nil).

12 Fixed asset investments

Company	2003 £'000	2002 £'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	-
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	-

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.

All subsidiary undertakings are included in these consolidated financial statements.

13 Stocks

	Group 2003 £'000	Company 2003 £'000	Group 2002 £'000	Company 2002 £'000
Raw materials and consumables	6,414	-	7,628	-
Work in progress	4,435	-	3,305	-
Finished goods and goods for resale	10,426	-	8,687	-
	21,275	-	19,620	-

14 Debtors

	Group 2003 £'000	Company 2003 £'000	Group 2002 £'000	Company 2002 £'000
Amounts falling due after one year				
Prepayments	101	-	113	-
	101	-	113	-
Amounts falling due within one year				
Trade debtors	17,191	-	17,105	-
Amounts due by group undertakings	6,779	27,613	4,888	31,090
VAT recoverable	676	-	1,787	-
Corporate tax recoverable	84	-	-	-
Deferred tax	-	-	417	-
Other debtors	2,299	45	2,409	-
Prepayments and accrued income	993	-	1,208	-
	28,022	27,658	27,814	31,090

15 Creditors: amounts falling due within one year

	Group 2003 £'000	Company 2003 £'000	Group 2002 £'000	Company 2002 £'000
Bank loans (see below)	9,347	7,228	9,351	7,228
Loan notes (see below)	340	197	1,681	1,529
Trade creditors	5,463	-	10,351	-
Amounts due to group undertakings	67,093	66,714	61,002	56,941
Obligations under finance leases	58	-	41	-
Corporation tax	22	-	450	-
Other taxation and social security	289	-	313	-
Other creditors	87	-	212	-
Accruals	14,412	1,525	13,976	3,535
	<u>97,111</u>	<u>75,664</u>	<u>97,377</u>	<u>69,233</u>

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 and its subsidiaries.

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.

16 Creditors: amounts falling due after more than one year

	Group 2003 £'000	Company 2003 £'000	Group 2002 £'000	Company 2002 £'000
Bank loans	10,581	8,184	21,339	16,503
Obligations under finance leases	-	-	58	-
Accruals and deferred income	-	-	120	-
	<u>10,581</u>	<u>8,184</u>	<u>21,517</u>	<u>16,503</u>

Bank loans

	Group 2003 £'000	Company 2003 £'000	Group 2002 £'000	Company 2002 £'000
Repayable as follows:				
In one year or less	9,347	7,228	9,351	7,228
Between one and two years	9,347	7,228	9,347	7,228
Between two and five years	1,234	956	11,992	9,275
	<u>19,928</u>	<u>15,412</u>	<u>30,690</u>	<u>23,731</u>

Finance leases

	Group 2003 £'000	Company 2003 £'000	Group 2002 £'000	Company 2002 £'000
The net finance lease obligations to which the group is committed fall due in:				
Less than one year	58	-	41	-
Between two and five years inclusive	-	-	58	-
	<u>58</u>	<u>-</u>	<u>99</u>	<u>-</u>

17 Provisions for liabilities and charges

Group	Deferred tax £'000	Pensions (note 18) £'000	Environ- mental Provisions £'000	Restructure and Integration £'000	Total £'000
At 1 October 2002	-	1,127	520	2,953	4,600
Transferred from assets	(417)	-	-	-	(417)
Profit and loss account	476	(438)	-	521	559
Utilised in year	-	-	(48)	(2,139)	(2,187)
Released in year	-	-	-	(333)	(333)
Exchange differences	-	16	-	2	18
At 30 September 2003	<u>59</u>	<u>705</u>	<u>472</u>	<u>1,004</u>	<u>2,240</u>

It is anticipated that the restructure and integration provision will be used within one year.

Environmental Provision

The environmental provision, which was assumed by the group 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 within one year.

Deferred Tax

Deferred tax recognised in the financial statements is as follows:

	Group Amount Provided 2003 £'000	Company Amount Provided 2003 £'000	Group Amount Provided 2002 £'000	Company Amount Provided 2002 £'000
Tax effect of timing differences:				
Excess of tax allowances over qualifying depreciation	324	-	414	-
Other short term timing differences	(462)	-	(1,028)	-
Other	197	-	197	-
Deferred tax liability/(asset)	59	-	(417)	-
	Group 2003 £'000	Company 2003 £'000	Group 2002 £'000	Company 2002 £'000
As at 1 October	(417)	-	(3,158)	(3,118)
Charge to profit and loss account	476	-	2,741	3,118
Deferred tax liability/(asset) as at 30 September	59	-	(417)	-

There is approximately £767,000 (2002: £180,000) of taxable losses not recognised in the financial statements as the directors regard their recoverability as uncertain.

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 in respect of The Scotts Company (UK) Pension Scheme for the year ending 30 September 2003 was £581,000 (cash contribution : £993,000) (2002 : £612,000 and £851,000 respectively). A provision of £351,000 (2002 : £763,000) 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.

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

For the purposes of FRS17 a formal valuation of the scheme liabilities was carried out as at 1 July 2003. The valuation of liabilities detailed below has been derived by projecting forward the position from 1 July 2003 to 30 September 2003.

Contributions to the scheme over the 2 years ending 30 September 2003 were paid as follows:-

	% Pensionable Pay
Company	16.5
Members	4.5

FRS17 requires that the present value of pension liabilities be calculated by discounting pension commitments, including salary growth, at an AA corporate bond yield. The FRS 17 value of liabilities at 30 September 2003 was approximately £34,797,000 (2002: £32,700,000) and the market value of assets was £21,230,000 (2002: £18,651,000), giving a Scheme deficit of £13,567,000 (2002: £14,049,000).

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

	2003	2002	2001
Discount rate	5.25% pa	5.50% pa	6.00% pa
Pay growth	4.00% pa	4.00% pa	4.00% pa
RPI	2.50% pa	2.50% pa	2.50% pa
Pension-in payment increases	2.50% pa	2.50% pa	2.50% pa
Deferred pension increases	2.50% pa	2.50% pa	2.50% pa

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

	2003 Expected Return	2003 £'000	2002 Expected Return	2002 £'000	2001 Expected Return	2001 £'000
Equities	8.25%	20,000	8.50% pa	16,786	8.00% pa	19,872
Bonds	4.75%	679	4.50% pa	1,679	5.00% pa	1,747
Other	4.75%	551	4.50% pa	186	5.00% pa	218
Market value of scheme assets		21,230		18,651		21,837
Present value of scheme liabilities		(34,797)		(32,700)		(26,236)
Deficit in scheme		(13,567)		(14,049)		(4,399)
Related deferred tax asset		4,070		4,215		1,320
Net pension liability		(9,497)		(9,834)		(3,079)

Analysis of the amount charged to operating profit under FRS 17

	Year to 30 September 2003 £'000	Year to 30 September 2002 £'000
Current service cost	1,235	1,113
Curtailment cost	-	1,200
Total operating charge	1,235	2,313

Analysis of other finance cost/(income) under FRS 17

	Year to 30 September 2003 £'000	Year to 30 September 2002 £'000
Expected return on pension scheme assets	(1,521)	(1,680)
Interest on pension liabilities	1,771	1,606
Net cost	250	(74)

The total charge through profit on ordinary activities before taxation if FRS 17 were adopted in full would be £1,485,000 (2002: £2,239,000).

Analysis of the amount recognised in statement of total recognised gains and losses (STRGL) under FRS 17

	Year to 30 September 2003 £'000	Year to 30 September 2002 £'000
Actual return less expected return on assets	1,388	(4,841)
Experience gains and losses on liabilities	(367)	(589)
Changes in assumptions	(47)	(2,832)
Actuarial gain/(loss) recognised in STRGL	974	(8,262)

Details of experience gains and losses for the year to 30 September 2003

	Year to 30 September 2003 £'000	Year to 30 September 2002 £'000
Difference between the expected and actual return on scheme assets:		
Amount (£'000)	1,388	(4,841)
Percentage of scheme assets	6.54%	26.0%
Experience gains and losses on scheme liabilities:		
Amount (£'000)	(367)	(589)
Percentage of the present value of the scheme liabilities	1.1%	1.8%
Total amount recognised in statement of total recognised gains and losses:		
Amount (£'000)	974	(8,262)
Percentage of the present value of the scheme liabilities	(2.8%)	25.3%

Movement in deficit during the year

	Year to 30 September 2003 £'000	Year to 30 September 2002 £'000
Deficit in scheme at beginning of year	(14,049)	(4,399)
Movement in year:		
Current service cost	(1,235)	(1,113)
Contributions	993	851
Curtailment cost	-	(1,200)
Net (charge)/return on assets	(250)	74
Actuarial gain/(loss)	974	(8,262)
Deficit in scheme at end of year	<u>(13,567)</u>	<u>(14,049)</u>

The Miracle Garden Company Pension Scheme

The scheme provides 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 triennial valuation of the scheme was carried out as at 5 April 2003. 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 6.75% per annum, a post-retirement investment rate of 5.25% per annum, a long term rate of growth in pensionable earnings of 4.0% per annum and increases to pensions in payment of 2.25% per annum. The valuation also took into account updated mortality tables.

At 1 October 2002 the market value of the assets of the scheme under the above assumptions was £8,361,000 which, at that date, represented 69% 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 2003 was £693,000 (2002: £535,000). There is a provision of £217,000 (2002: £231,000) in the group balance sheet as at 30 September 2003 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 2003. The valuation of liabilities detailed below has been derived by projecting forward the position from 5 April 2003 to 30 September 2003.

Contributions over the three years ending 30 September 2003 were paid as follows:

	Prior to 31 March 2001	From 1 April 2001
	% Pensionable Pay	% 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 requires that the present value of pension liabilities be calculated by discounting pension commitments, including salary growth, at an AA corporate bond yield. The FRS 17 value of liabilities at 30 September 2003 was approximately £15,327,000 (2002: £13,987,000) and the market value of assets was £10,005,000 (2002: £8,361,000), giving a Scheme deficit of £5,322,000 (2002: £5,626,000).

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

	2003	2002	2001
Discount rate	5.30% pa	5.50% pa	6.10% pa
Pay growth	4.35% pa	4.00% pa	4.25% pa
RPI	2.60% pa	2.25% pa	2.50% pa
Pension-in payment increases	2.60% pa	2.25% pa	2.50% pa

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

	2003 Expected Return	2003 £'000	2002 Expected Return	2002 £'000	2001 Expected Return	2001 £'000
Equities	6.7% pa	7,684	6.5% pa	6,083	7.0% pa	7,094
Bonds	4.0% pa	2,196	4.3% pa	2,050	5.5% pa	1,941
Other	3.7% pa	125	5.0% pa	228	5.0% pa	285
Market value of scheme assets		10,005		8,361		9,320
Present value of scheme liabilities		(15,327)		(13,987)		(11,424)
Deficit in scheme		(5,322)		(5,626)		(2,104)
Related deferred tax asset		1,597		1,688		631
Net pension liability		(3,725)		(3,938)		(1,473)

Analysis of the amount charged to operating profit under FRS 17

	Year to 30 September 2003 £'000	Year to 30 September 2002 £'000
Current service cost	288	297
Curtailment cost	-	603
Total operating charge	288	900

Analysis of other finance income under FRS 17

	Year to 30 September 2003 £'000	Year to 30 September 2002 £'000
Expected return on pension scheme assets	(506)	(639)
Interest on pension liabilities	771	715
Net cost	265	76

The total charge through profit on ordinary activities before taxation if FRS 17 were adopted in full would be £553,000 (2002: £976,000).

Analysis of the amount recognised in statement of total recognised gains and losses (STRGL) under FRS 17

	Year to 30 September 2003 £'000	Year to 30 September 2002 £'000
Actual return less expected return on assets	642	(2,210)
Experience gains and losses or liabilities	871	-
Changes in assumptions	(1,363)	(1,251)
Actuarial gain/(loss) recognised in STRGL	150	(3,461)

Details of experience gains and losses for the year to 30 September 2003

	Year to 30 September 2003 £'000	Year to 30 September 2002 £'000
Difference between the expected and actual return on scheme assets:		
Amount (£'000)	642	(2,210)
Percentage of scheme assets	6.4%	(26.4%)
Experience gains and losses on scheme liabilities:		
Amount (£'000)	871	-
Percentage of scheme liabilities	(5.7%)	-
Total amount recognised in statement of total recognised gains and losses:		
Amount (£'000)	150	(3,461)
Percentage of the present value of the scheme liabilities	(1.0%)	24.7%

Movement in deficit during the year

	Year to 30 September 2003 £'000	Year to 30 September 2002 £'000
Deficit in scheme at beginning of year	(5,626)	(2,104)
Movement in year:		
Current service cost	(288)	(297)
Contributions	707	312
Curtailment contribution	-	603
Curtailment cost	-	(603)
Net interest on assets	(265)	(76)
Actuarial loss	150	(3,461)
Deficit in scheme at end of year	<u>(5,322)</u>	<u>(5,626)</u>

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 SSAP 24 'Accounting for pension costs' is considered to be out of proportion to the benefits to be gained. The pension cost for foreign schemes during the year was £500,000 (2002: £486,000) and a balance of £137,000 (2002: £133,000) 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 latest formal valuation of the Scheme was carried out as at 30 September 2002. The valuation of liabilities detailed below:

Employer's contributions are 5% of gross pay.

FRS17 requires that the present value of pension liabilities be calculated by discounting pension commitments, including salary growth, at an AA corporate bond yield. The FRS 17 value of liabilities at 30 September 2003 was approximately £6,685,000 (2002: £4,878,000) and the market value of assets was £4,342,000 (2002: £3,243,000), giving a Scheme deficit of £2,343,000 (2002: £1,635,000).

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

	2003	2002	2001
Discount rate	5.25%	5.50% pa	6.00% pa
Pay growth	3.00%	3.00% pa	3.00% pa
RPI	2.00%	2.00% pa	2.00% pa
Pension-in payment increases	2.00%	2.00% pa	2.00% pa

Deferred pensions are revalued to retirement age in line with statutory requirements.

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

	2003 Expected Return	2003 £'000	2002 Expected Return	2002 £'000	2001 Expected Return	2001 £'000
Bonds	6%	4,342	7.0%	3,243	7.0%	2,546
Market value of scheme assets		4,342		3,243		2,546
Present value of scheme liabilities		(6,685)		(4,878)		(3,540)
Deficit in scheme		(2,343)		(1,635)		(994)
Related deferred tax asset (at 35%)		820		572		348
Net pension liability		(1,523)		(1,063)		(646)

Analysis of the amount charged to operating profit under FRS 17

	Year to 30 September 2003 £'000	Year to 30 September 2002 £'000
Current service cost	366	311
Total operating charge	366	311

Analysis of other finance income under FRS 17

	Year to 30 September 2003 £'000	Year to 30 September 2002 £'000
Expected return on pension scheme assets	(236)	(181)
Interest on pension liabilities	317	232
Net cost	81	51

The total charge through profit on ordinary activities before taxation if FRS 17 were adopted in full would be £447,000 (2002: £362,000).

Analysis of the amount recognised in statement of total recognised gains and losses (STRGL) under FRS 17

	Year to 30 September 2003 £'000	Year to 30 September 2002 £'000
Actual return less expected return on assets	(65)	(53)
Changes in assumptions	(507)	(704)
Actuarial (loss) recognised in STRGL	(572)	(757)

Details of experience gains and losses for the year to 30 September 2003

	Year to 30 September 2003 £'000	Year to 30 September 2002 £'000
Difference between the expected and actual return on scheme assets:		
Amount (£'000)	(65)	(53)
Percentage of scheme assets	(1.5)%	(1.6)%
Total amount recognised in statement of total recognised gains and losses:		
Amount (£'000)	(572)	(757)
Percentage of the present value of the scheme liabilities	8.6%	(15.5)%

Movement in deficit during the year

	Year to 30 September 2003 £'000	Year to 30 September 2002 £'000
Deficit in scheme at beginning of year	(1,635)	(994)
Exchange difference	(191)	(14)
Movement in year:		
Current service cost	(366)	(311)
Contributions	502	492
Net cost on scheme assets	(81)	(51)
Actuarial loss	(572)	(757)
Deficit in scheme at end of year	(2,343)	(1,635)

Summary of all schemes

<i>Liability under:</i>	Cost for Year		Liability at 30 Sept		Deferred tax	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000	2003 £'000	2002 £'000
SSAP 24						
The Scotts Company Scheme	581	612	(351)	(763)	105	229
Miracle Garden Care Scheme	693	535	(217)	(231)	65	69
Scotts International Scheme	500	486	(137)	(133)	-	-
Defined Contribution Schemes	33	46	-	-	-	-
	1,807	1,679	(705)	(1,127)	170	298
FRS 12*						
The Scotts Company Scheme	330	1,047	(330)	(1,047)	99	235
Miracle Garden Care Scheme	-	-	-	(144)	-	-
	330	1,047	(330)	(1,191)	99	235
Total as recognised in the financial statements	2,137	2,726	(1,035)	(2,318)	269	533
FRS 17 (if adopted)						
The Scotts Company Scheme	1,485	2,239	(13,567)	(14,049)	4,070	4,215
Miracle Garden Care Scheme	553	976	(5,322)	(5,626)	1,597	1,688
Scotts International Scheme	447	362	(2,343)	(1,635)	820	572
Defined Contribution Schemes	33	46	-	-	-	-
Total under FRS 17	2,518	3,623	(21,232)	(21,310)	6,487	6,475

** These pension costs, relating to early terminations of scheme members, have been accrued under the principles of FRS 12 and are included under the 'restructuring and integration' provision, they are not included under the SSAP 24 valuation provision as the last triennial valuation was completed prior to the obligating event occurring.*

FRS17 impact on group balance sheet

	2003	2002
	£'000	£'000
Net liabilities		
Net liabilities excluding FRS 17 pension liability	(30,620)	(33,700)
Gross pension scheme liabilities under FRS 17	(21,232)	(21,310)
Associated deferred tax asset	6,487	6,475
Pension scheme liabilities under SSAP 24	705	1,127
Past service costs held in provisions under FRS 12	330	1,191
Deferred tax asset held in current balance sheet under SSAP 24/FRS 12	(269)	(533)
Net liabilities including pension liability	<u>(44,599)</u>	<u>(46,750)</u>

	2003	2002
	£'000	£'000
Profit and loss reserve		
Profit and loss reserve excluding FRS 17 pension liability	(30,620)	(33,700)
Gross pension scheme liabilities under FRS 17	(21,232)	(21,310)
Associated deferred tax asset	6,487	6,475
Pension scheme liabilities under SSAP 24	705	1,127
Past service costs held in provisions under FRS 12	330	1,191
Deferred tax asset held in current balance sheet under SSAP 24/FRS 12	(269)	(533)
Profit and loss deficit including pension liability	<u>(44,599)</u>	<u>(46,750)</u>

19 Share capital

	2003	2002
	£	£
Authorised, allotted, called up and fully paid:	6	6
	<hr/>	<hr/>
6 Ordinary shares of £1 each	6	6
	<hr/>	<hr/>

20 Reserves

Group	Profit and Loss Account £'000
At 1 October 2002	(33,700)
Retained profit for the year	1,581
Currency translation differences	1,499
At 30 September 2003	<hr/> (30,620) <hr/>

Positive purchased goodwill arising prior to the implementation of FRS 10 eliminated against group profit and loss reserves totals £36,082,000 (2002: £36,082,000). This will be charged in the profit and loss account on any subsequent disposal of the business to which it relates, so as to reduce the reported profit or increase the reported loss on any such disposal.

Company	Profit and Loss Account £'000
At 1 October 2002	(14,888)
Retained loss for the year (note 9)	(1,544)
At 30 September 2003	<hr/> (16,432) <hr/>

21 Capital commitments

	Group 2003 £'000	Company 2003 £'000	Group 2002 £'000	Company 2002 £'000
Contracted but not provided for	228	-	60	-
	<hr/> 228 <hr/>	<hr/> - <hr/>	<hr/> 60 <hr/>	<hr/> - <hr/>

22 Financial commitments

At 30 September 2003 the group had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings	Other	Land and Buildings	Other
	2003	2003	2002	2002
	£'000	£'000	£'000	£'000
Expiring within one year	-	1,114	21	811
Expiring between two and five years	342	2,265	247	1,201
Expiring outside five years	-	2,286	-	565
	<u>342</u>	<u>5,665</u>	<u>268</u>	<u>2,577</u>

23 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.

24 Related party transactions

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.