Broomco (2705) Limited

Directors' report and consolidated financial statements

Registered number 4317613

31 December 2002

Contents

Directors' report

The directors present their annual report and the audited financial statements for the period ended 31 December 2002.

Principal activities

The principal activity of the company is to act as a holding company for the Group.

The principal activities of the company's subsidiary undertakings are the manufacture and distribution of food products.

Business review

The company was incorporated on 6 November 2001 and commenced trading on 14 December 2001.

On 14 December 2001, the company acquired 100% of the share capital of Rayner Food Group Limited and its subsidiary undertakings.

The result for the period retained in the Group is shown on page 5.

On 26 November 2002, Rayner and Company Limited; a subsidiary undertaking, disposed of its industrial food essences business.

Research and development

The Group carried out research and development in support of existing activities, specific new product development and the improvement of production processes.

Proposed dividend

The directors do not recommend the payment of a dividend.

Important events after the period end in relation to matters during the reporting period

At the balance sheet date, covenants in place under the group's lending facilities had been breached, resulting in the debt being repayable on demand. Following negotiations with the banks, amended covenants under these facilities have been agreed. Reference is made to note 15 for more details.

Furthermore, Broomco (2705) Limited and certain of its subsidiaries and the Trustees of the pension fund have agreed terms and conditions regarding the settlement of such amounts as may be due to the scheme. Reference is made to note 4 for more details.

Employees

The maintenance of a skilled workforce is a key to the future of the business. Health and safety matters are given special attention by committees within the Group.

The Group recognises the benefits of keeping employees informed of the progress of the business and during the period employees were provided with information regarding the financial performance of the Group.

The Group employs disabled people and maintains a policy of training and adapting working methods where practicable in order to provide suitable employment to both new and existing employees in this category.

Directors' report *(continued)*

Political and charitable contributions

The Group made no political contributions during the year. Donations to UK charities amounted to £2,360.

Directors and directors' interests

The directors who held office during the period or who have since been appointed were as follows:

GJJ Westerkamp (appointed 9 January 2002)

NS Garrow (appointed 9 January 2002)

I Grant (appointed 16 October 2003)

DLA Nominees Limited (appointed 6 November 2001, resigned 13 December 2001)

DLA Secretarial Services Limited (appointed 6 November 2001, resigned 13 December 2001)

PB Conboy (appointed 13 December 2001, resigned 16 October 2003)

M Beard (appointed 13 December 2001 resigned 27 May 2003)

SW James (appointed 26 March 2002, resigned 31 July 2003)

C Savage (appointed 3 July 2003, resigned 22 December 2003)

The directors who held office at the end of the financial period had the following interests in the ordinary shares of the company according to the register of directors' interests:

	Ordinary A shares of 1p each	
	At 31 December 2002 A shares	**At date of appointment A shares**
M Beard	110,354	-
NS Garrow	24,439	24,439
SW James	35,000	-

Auditors

A resolution concerning the re-appointment of KPMG LLP as auditors will be proposed at the forthcoming Annual General Meeting.

By order of the board

NS Garrow
Director

4 Bull Lane
Edmonton
London
N18 1TQ

27\1\ 2004

Statement of directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

KPMG

St James' Square
Manchester
M2 6DS
United Kingdom

Report of the independent auditor to the members of Broomco (2705) Limited

We have audited the financial statements on pages 5 to 29 except for the proforma information on pages 6 and 7.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 with the company 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 as at 31 December 2002 and of the loss of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

We have reviewed without audit the proforma consolidated and company balance sheets at 31 December 2002 which have been included in the accounts. In our opinion, these proforma statements have, so far as the calculations are concerned, been properly compiled on the basis set out in note 1.

KPMG LLP

KPMG LLP 27/1/04
Chartered Accountants
Registered Auditor

Consolidated profit and loss account
for the period ended 31 December 2002

	Note		Period ended 31 December
		2002	2002
		£000	£000
Turnover	2		39,615
Cost of sales			(30,470)
Gross profit			9,145
Distribution costs			(5,149)
Administrative expenses before exceptional items		(3,089)	
Exceptional costs	4	(4,558)	
Administrative expenses			(7,647)
Group operating loss	3-6		(3,651)
Profit on sale of operation			782
Other interest receivable and similar income	7		170
Interest payable and similar charges	8		(1,945)
Loss on ordinary activities before taxation			(4,644)
Tax on profit on ordinary activities	9		1,939
Loss on ordinary activities after taxation			(2,705)
Dividends			15
Retained loss for the financial period			(2,690)

The Group has no recognised gains or losses other than the loss for the period reported above.

All the above results are from acquisitions and relate to continuing operations.

Consolidated balance sheet
at 31 December 2002

	Note	2002 £000	2002 £000	2002 £000	Proforma unaudited 2002 £000
Fixed assets					
Intangible assets	*10*		**9,234**		9,234
Tangible assets	*11*		**14,049**		14,049
			23,283		23,283
Current assets					
Stocks	*13*	**4,417**		4,417	
Debtors	*14*	**8,576**		8,576	
Cash at bank and in hand		**2,848**		2,848	
		15,841		15,841	
Creditors: amounts falling due within one year	*15*	**(41,767)**		(14,282)	
Net current (liabilities)/assets			**(25,926)**		1,559
Creditors: amounts falling due after one year	*15*		**-**		(27,485)
Net liabilities			**(2,643)**		(2,643)
Capital and reserves					
Called up share capital	*18*		**18**		18
Merger reserve	*19*		**29**		29
Profit and loss account	*19*		**(2,690)**		(2,690)
Equity shareholders' funds			**(2,643)**		(2,643)

These financial statements were approved by the board of directors on 27/1/04 and were signed on its behalf by:

NS Garrow
Director

Proforma

The actual balance sheet includes all borrowings under the Group's bank agreements as falling due within one year as the bank covenants had been breached at the period end. Following renegotiation with the banks an agreement was reached over the repayment schedule on 15 October 2003. The proforma balance sheet is prepared on the basis that the renegotiated repayment profile had been in existence at the period end.

Balance sheet
at 31 December 2002

	Note	2002 £000	2002 £000	2002 £000	Proforma unaudited 2002 £000
Fixed assets					
Investments	*12*		**29,006**		29,006
Current assets					
Debtors	*14*	**10,038**		10,038	
Cash at bank and in hand		**2,000**		2,000	
		12,038		12,038	
Creditors: amounts falling due within one year	*15*	**(42,436)**		(14,951)	
Net current liabilities			**(30,398)**		(2,913)
Creditors: amounts falling due after one year	*15*		**-**		(27,485)
Net liabilities			**(1,392)**		(1,392)
Capital and reserves					
Called up share capital	*18*		**18**		18
Merger reserve	*19*		**29**		29
Profit and loss account	*19*		**(1,439)**		(1,439)
Equity shareholders' funds			**(1,392)**		(1,392)

These financial statements were approved by the board of directors on 27\1\04 and were signed on its behalf by:

NS Garrow
Director

Proforma

The actual balance sheet includes all borrowings under the Group's bank agreements as falling due within one year as the bank covenants had been breached at the period end. Following renegotiation with the banks an agreement was reached over the repayment schedule on 15 October 2003. The proforma balance sheet is prepared on the basis that the renegotiated repayment profile had been in existence at the period end.

Consolidated cash flow statement

for the period ended 31 December 2002

	Note	Period ended 31 December 2002 £000
Cash flow statement		
Cash flow from operating activities	22	14,472
Returns on investments and servicing of finance	23	(2,115)
Taxation		(35)
Capital expenditure	23	(5,068)
Acquisitions and disposals	23	2,545
Cash outflow before financing		9,799
Financing	23	(6,951)
Increase in cash in the period		2,848

Reconciliation of net cash flow to movement in net debt

	Note	£000
Increase in cash in the period		2,848
Debt acquired with subsidiary		(34,465)
Repayment of debt		6,980
Movement in net debt in the period		(24,637)
Net debt at the start of the period		-
Net debt at the end of the period	24	(24,637)

Reconciliation of movements in shareholders' funds

for the period ended 31 December 2002

	Group 2002 £000	Company 2002 £000
Loss for the financial period	(2,690)	(1,439)
	(2,690)	(1,439)
New share capital subscribed (net of issue costs)	47	47
Net reduction in shareholders' funds	(2,643)	(1,392)
Closing shareholders' funds	(2,643)	(1,392)

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements except as noted below. The company has adopted FRS 18 'Accounting policies' and FRS 19 'Deferred tax' in these financial statements. The company has followed the transitional arrangements of FRS 17 'Retirement benefits' in these financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of certain land and buildings.

Additional proforma information is included in the consolidated and company balance sheets on pages 6 and 7 respectively. The actual balance sheet includes all borrowings under the Group's bank agreements as falling due within one year as the bank covenants had been breached at the period end. Following renegotiation with the banks an agreement was reached over the repayment schedule on 15 October 2003. The proforma balance sheet is prepared on the basis that the renegotiated repayment profile had been in existence at the period end.

The accounts have been prepared on the going concern basis by the directors as bank facilities were renegotiated on 15 October 2003 and are sufficient for the business needs for the foreseeable future.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2002. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

Goodwill

Goodwill arising on consolidation is capitalised on acquisition and written off to the profit and loss account by equal instalments over twenty years.

Intangible fixed assets and amortisation

Patent rights and brands purchased by the company are amortised to nil by equal annual instalments over their useful economic lives, generally their respective unexpired periods, of between eight and twenty years.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	4% reducing balance
Leasehold land and buildings	-	life of lease
Plant and machinery	-	10% - 25% straight line
Fixtures, fittings, tools and equipment	-	10% - 33.3% straight line

No depreciation is provided on freehold land.

Notes *(continued)*

1 Accounting policies *(continued)*

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Investments

Investments held as fixed assets are stated at cost less provision for any permanent diminution in value.

Post-retirement benefits

The Group operated a defined benefit pension scheme during the period. The accounting treatment of this scheme is set out in note 21.

Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the period in which it is incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost comprises material cost plus attributable production, labour and associated overheads. Net realisable value is based on estimated selling price less further costs to completion and all relevant marketing, selling and distribution costs.

Taxation

The charge for taxation is based on the profit/loss for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, with discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of food products to customers.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Notes *(continued)*

2 Analysis of turnover

Turnover is derived from the sale of food products and is analysed by geographical destination as follows:

	Period ended 31 December 2002 £000
UK	36,772
Rest of World	2,843
	39,615

3 Loss on ordinary activities before taxation

	Period ended 31 December 2002 £000
Loss on ordinary activities before taxation is stated after charging	
Auditors' remuneration:	
Audit – Group	42
Audit – Company	3
Other services - fees paid to the auditor and its associates	41
Depreciation and other amounts written off tangible fixed assets:	
Owned	1,036
Leased	12
Amortisation of goodwill	490
Hire of plant and machinery - rentals payable under operating leases	255
Hire of other assets - operating leases	395

4 Exceptional items

During the year a group company gave notice to close the Rayner & Company Limited Staff Pension Fund, which in turn commenced the wind-up of this scheme. As of the date of these accounts, the Trustees of the scheme had not served debt upon the relevant employers.

Broomco (2705) Limited and certain of its subsidiaries and the Trustees of the pension fund have agreed terms and conditions regarding settlement of such amounts as may be due to the scheme.

The disclosures required by FRS 17 are shown in note 21.

Included within administrative expenses is £4,558,000 relating to the estimated settlement and associated professional fees.

Notes *(continued)*

5 Remuneration of directors

	Period ended 31 December 2002 £000
Directors' emoluments	231
Company contributions to pension schemes	18
Amounts paid to third parties in respect of directors' services	40
	289

The aggregate of emoluments of the highest paid director was £122,130 and company pension contributions of £11,458 were made to a money purchase scheme on his behalf.

	Number of directors Period ended 31 December 2002
Retirement benefits are accruing to the following number of directors under:	
Money purchase schemes	2

Notes *(continued)*

6 Staff numbers and costs

The average number of persons employed by the group (including directors) during the period, analysed by category, was as follows:

	Number of employees Period ended 31 December 2002
Production	343
Selling and distribution	60
Administration	32
	435

The aggregate payroll costs of these persons were as follows:

	Period ended 31 December 2002 £000
Wages and salaries	7,974
Social security costs	704
Other pension costs	371
	9,049

7 Other interest receivable and similar income - Group

	Period ended 31 December 2002 £000
Bank interest	166
Other	4
	170

Notes *(continued)*

8 Interest payable and similar charges - Group

	Period ended 31 December 2002 £000
On bank loans and overdrafts	1,048
On loan stock	893
Finance charges payable in respect of finance leases and hire purchase contracts	4
	1,945

9 Taxation

Analysis of credit in the period

	Period ended 31 December 2002 £000
UK corporation tax	
Adjustments in respect of prior periods	(172)
Total current tax	(172)
Deferred tax	
Origination/reversal of timing differences	(1,767)
Tax on loss on ordinary activities	(1,939)

Notes *(continued)*

9 Taxation (continued)

Factors affecting the tax credit for the current period

The current tax credit for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below.

	Period ended 31 December 2002 £000
Current tax reconciliation	
Loss on ordinary activities before tax	(4,644)
Current tax at 30 %	(1,393)
Effects of:	
Expenses not deductible for tax purposes	666
Non taxable income	(316)
Short term timing differences	32
Depreciation for period in excess of capital allowances	126
Other timing differences (primarily settlement of the pension liability)	1,595
Small companies relief	(710)
Adjustments to tax charge in respect of previous periods	(172)
Total current tax credit (see above)	(172)

Notes *(continued)*

10 Intangible fixed assets

	Goodwill
	£000
Group	
Cost	
Additions	9,724
At end of period	9,724
Amortisation	
Charged in the period	490
At end of period	490
Net book value	
At 31 December 2002	**9,234**

Company

The company has no intangible fixed assets.

Notes *(continued)*

11 Tangible fixed assets

Group	Land and buildings £000	Short term Leasehold Improvements £000	Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Total £000
Cost					
Additions	5,141	2,809	6,163	1,021	15,134
Disposals	-	-	(132)	-	(132)
At end of period	5,141	2,809	6,031	1,021	15,002
Depreciation					
Charge for the period	126	24	763	135	1,048
On disposals	-	-	(95)	-	(95)
At end of period	126	24	668	135	953
Net book value					
At 31 December 2002	**5,015**	**2,785**	**5,363**	**886**	**14,049**

Included in the total net book value of plant and machinery is £41,000 in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the period on these assets was £10,000.

Included in the total net book value of short-term leasehold improvements is £55,000 in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the period on these assets was £2,000.

Company

The company has no tangible fixed assets.

Notes *(continued)*

12 Fixed asset investments

	Shares in group undertakings £000
Company	
Cost and net book value	
Additions (see note 17)	29,006
At end of period	29,006

The company holds 100% of the share capital and voting rights of the following companies. The companies listed below include those which principally affect the profits and assets of the group, all of which are incorporated in the United Kingdom and registered in England

	Principal activity	Percentage of shares held
Subsidiary undertakings		
Rayner Food Group Limited	Holding company	100%
Rayner and Company Limited	Manufacture and sale of food products	100%
Cauldron Foods Limited	Manufacture and sale of health food products	100%*
Martlet Natural Foods Limited (formerly Radley Kemble Limited)	Manufacture and sale of health food products	100%*

* Indirect holding through Rayner and Company Limited.

A full list of subsidiary undertakings will be included in the Company's Annual Return.

13 Stocks

	Group 2002 £000	Company 2002 £000
Raw materials and consumables	2,648	-
Finished goods and goods for resale	1,769	-
	4,417	-

Notes *(continued)*

14 Debtors

	Group 2002 £000	Company 2002 £000
Trade debtors	6,320	-
Amounts owed by group undertakings	-	9,405
Corporation tax	118	576
Deferred tax	1,369	-
Other debtors	393	57
Prepayments and accrued income	376	-
	8,576	10,038

15 Creditors: amounts falling due within one year

	Group 2002 £000	Company 2002 £000
Bank loans and overdrafts	13,020	13,020
Loan stock	14,465	14,465
Trade creditors	6,480	-
Amounts owed to group undertakings	-	13,684
Taxation and social security	258	-
Other creditors	6,043	-
Accruals and deferred income	1,501	1,267
	41,767	42,436

Included within other creditors is £5,381,000 relating to the settlement of the pension scheme liability (see also note 4). The remaining amount of £662,000 relates to miscellaneous other creditors.

Bank loan

The bank loan of £13,020,000 is secured by a fixed and floating charge over the assets of the group. Interest is charged at 1.81% above LIBOR.

As at the period end, covenants in place under the group's lending facilities had been breached, resulting in the debt being repayable on demand as at the period end. Following negotiations with the bank the breach of the covenant was waived and the bank loan is now repayable as follows:

Group and company	£000
Within one year	-
Between one and two years	500
Between two and five years	12,520
	13,020

Notes (continued)

Loan stock

The loan stock is unsecured and comprised subordinated A loan notes and B loan notes as follows:

	Group 2002 £000	Company 2002 £000
A loan notes	**1,265**	1,265
B loan notes	**13,200**	13,200
	14,465	14,465

Interest is payable at a rate of 5% on the A loan notes and 6% on the B loan notes. During the period, covenants in place over the loan stock were breached, resulting in the debt being repayable on demand at the period end. Following negotiations with the bank, the breach of the covenant was waived and the loan notes are now repayable on 31 March 2008.

16 Deferred tax

	Taxation including deferred taxation £000
Group	
At beginning of period	-
Credit for the period	(1,369)
At end of period	(1,369)

The elements of deferred taxation are as follows:

	2002 £000
Difference between accumulated depreciation and amortisation and capital allowances	268
Short term timing differences	(43)
Other timing differences	(1,594)
Undiscounted asset	(1,369)
Deferred tax asset (see note 14)	(1,369)

Notes *(continued)*

17 Acquisitions

On 14 December 2001 the company acquired 100% of the share capital of Rayner Food Group Limited and its subsidiary undertakings.

The fair value of the assets acquired was as follows:

	Book value	Other adjustments	Fair value
	£000	£000	£000
Fixed assets			
Tangible	10,029	-	10,029
Current assets			
Stock	4,272	-	4,272
Debtors	21,397	-	21,397
Cash	1,763	-	1,763
Total assets	37,461	-	37,461
Provisions	-	(1,157)	(1,157)
Creditors	(17,022)	-	(17,022)
Total liabilities	(17,022)	(1,157)	(18,179)
Net assets	20,439	(1,157)	19,282
Goodwill			9,724
Purchase consideration and costs of acquisition			29,006

Fair value adjustments

At the date of the acquisition, the business acquired operated a defined benefit pension scheme. The scheme had a net pension liability of £759,000 which was not recognised in the book value of assets acquired.

At the date of acquisition, no recognition of deferred tax had been made in the book value of the businesses acquired. The potential deferred tax liabilities amounted to £398,000.

On 14 December 2001 the company acquired the net assets of Broomco (2307) Limited by way of a share for share exchange. No further fair value adjustments were made in respect of this acquisition. Broomco (2307) Limited had investments of £29.0m, other assets of £6.1m and external borrowings of £34.5 m at the time of acquisition

The acquired undertakings made a profit of £14,333,000 from the beginning of its financial year to the date of acquisition. Included in this profit was exceptional income of

£10,446,000 relating to the profit on sale of Crusha trade and assets. In its previous financial year the profit was £1,063,000.

Notes *(continued)*

18 Called up share capital

	Number	2002 £000
Authorised		
Equity:		
A ordinary shares of 1p each	**375,000**	4
B ordinary shares of 1p each	**109,999**	1
C ordinary shares of 1p each	**1,300,000**	13
D ordinary shares of 1p each	**44,625**	-
		18
Allotted, called up and fully paid		
Equity:		
A ordinary shares of 1p each	**362,165**	4
B ordinary shares of 1p each	**109,999**	1
C ordinary shares of 1p each	**1,300,000**	13
D ordinary shares of 1p each	**29,250**	-
		18

- The holders of Class C ordinary shares shall be entitled to a cumulative preferential participating cash dividend of an amount equal to the following percentages of the adjusted profits (exclusive of any associated tax credit):

  in respect of the Accounting Period commencing on 1 January 2004 and ending on 31 December 2004, 12.5.%;

  in respect of the Accounting Periods ending 2005 and 2006, 17.5%;

  in respect of all Accounting Periods subsequent to 31 December 2006, 22.5%

- In the event of a winding up, the assets and retained profits of the Company available for distribution among the members shall be applied as follows:

  firstly in paying C shareholders

  secondly in paying B shareholders

  thirdly in paying A shareholders

  fourthly in paying D shareholders

- All shares carry one vote each.

Notes *(continued)*

19 Reserves

	Merger reserve £000	Profit and loss account £000
Group		
Retained loss for the period	-	(2,690)
Premium on share issues, less expenses	29	-
At end of period	29	(2,690)

	Merger reserve £000	Profit and loss account £000
Company		
Retained loss for the period	-	(1,439)
Premium on share issues, less expenses	29	-
At end of period	29	(1,439)

20 Commitments

a) Capital commitments at the end of the financial period for which no provision has been made, are as follows:

	Group 2002 £000	Company 2002 £000
Contracted	**326**	-

(b) At the end of the financial period the group had entered into purchase commitments amounting to £1,151,000 in respect of raw materials.

(c) Annual commitments under non-cancellable operating leases are as follows:

	2002 Land and buildings £000	Other £000
Group		
Operating leases which expire:		
Within one year	-	96
In the second to fifth years inclusive	-	165
Over five years	277	2
	277	263

Notes *(continued)*

21 Pension scheme

The Group operated a pension scheme (The Rayner & Company Limited Staff Pension Fund) providing benefits based on final pensionable pay. During the period, the company gave notice of closure of the scheme. These accounts reflect the likely estimate of costs of closure, as set out in note 4. The assets of the scheme are held separately from those of the Group. Excluding the estimate of closure costs, the total pension cost for the Group was £211,000. Since closure of that scheme, the group has operated a defined contribution pension scheme

The contributions are determined by a qualified actuary on the basis of valuations using the projected unit credit method. The most recent valuation was at 31 March 2001. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. The assumptions in the most recent valuation were that the investment returns would be 6% per annum, that salary increases would average 4% per annum and that pensions would increase at the rates guaranteed in the rules.

The most recent valuation showed that the market value of the scheme's assets was £10,094,000 and that the actuarial value of those assets was sufficient to cover 100% of the benefits that had accrued to members after allowing for expected future increases in earnings. The contribution of the Group was 16.2% and the contribution of employees was 5%.

Whilst the company continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension costs', under FRS 17 'Retirement benefits' the following transitional disclosures are required.

FRS 17 disclosures

The draft actuarial valuation of the Rayner & Company Limited Staff Pension Fund at 31 March 2001 was updated to 31 December 2002 by a qualified actuary, using a set of assumptions consistent with those required under FRS 17.

The major assumptions used by the actuary were:

	2002
Rate of increase in pensionable salaries	-
Rate of increase in pensions in payment for post April 1997 service	-
Rate of increase in deferred pensions	2.5%
Discount rate	5.5%
Inflation assumption	2.5%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Notes *(continued)*

21 Pension scheme *(continued)*

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Value at 2002 £000	Long term rate of return 2002
Equities	6,133	8%
Gilts	1,447	3.5%
Cash	283	-
Net current assets	-	-
	7,863	
Present value of scheme liabilities	(11,582)	
Deficit in the scheme – Pension liability	(3,719)	
Related deferred tax asset (assumed 30% tax rate)	1,116	
Net pension liability	**(2,603)**	

Movement in surplus/deficit during the period

	2002 £000
Deficit in scheme at beginning of period	(857)
Current service cost	(367)
Contributions paid	211
Gains on settlements or curtailments	715
Other finance cost	(23)
Actuarial loss	(3,398)
Deficit in the scheme at end of period	(3,719)

Notes *(continued)*

21 Pension scheme *(continued)*

If FRS 17 had been fully adopted in these financial statements the pension costs for defined benefit schemes would have been:

Analysis of other pension costs charged in arriving at operating loss

	2002 £000
Current service cost	367
Gains on settlements or curtailments	(715)
	(348)

Analysis of amounts included in other finance costs

	2002 £000
Expected return on pension scheme assets	620
Interest on pension scheme liabilities	(648)
	(28)

Analysis of amount recognised in statement of total recognised gains and losses

	%	2002 £000
Actual return less expected return on scheme assets		(2,426)
Percentage of year end scheme assets	31	
Experience gains and losses arising on scheme liabilities		116
Percentage of present value of year end scheme liabilities	1	
Changes in assumptions underlying the present value of scheme liabilities		(1,088)
Percentage of present value of year end scheme liabilities	9	
Actuarial gain loss recognised in statement of total recognised gains and losses		**(3,398)**
Percentage of present value of year end scheme liabilities	**29**	

Notes *(continued)*

22 Reconciliation of operating profit to operating cash flows

	Period ended 31 December 2002 £000
Operating loss	(3,651)
Depreciation	1,048
Amortisation of goodwill	490
Decrease in stocks	69
Decrease in debtors	122
Increase in creditors	16,394
Net cash flow from operating activities	14,472

23 Analysis of cash flows

	Note	2002 £000	2002 £000
Returns on investment and servicing of finance			
Interest received			113
Interest paid			(2,228)
			(2,115)
Capital expenditure			
Purchase of tangible fixed assets			(5,105)
Sale of tangible fixed assets			37
			(5,068)
Acquisitions and disposals			
Purchase of subsidiary undertaking	17	-	
Cash acquired with subsidiary		1,763	
			1,763
Sale of business			782
			2,545
Financing			
Issue of ordinary share capital		47	
Debt due within one year:			
Repayment of secured loan		(6,980)	
Capital element of finance lease rental payments		(18)	
			(6,951)