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ORGANIC FARM FOODS (SCOTLAND) LTD
FINANCIAL STATEMENTS
31 MARCH 1999

Company Registration Number SC093747

CHARLES BURROWS & CO
Chartered Accountants & Registered Auditors
7 Palmerston Place
Edinburgh
EH12 5AH

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ORGANIC FARM FOODS (SCOTLAND) LTD

FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 1999

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ORGANIC FARM FOODS (SCOTLAND) LTD

OFFICERS AND PROFESSIONAL ADVISERS

The Board of Directors

R M Kingdon
P Segger

Company Secretary

S Brown

Registered Office

49 Queen Street
Edinburgh
EH2 3NH

Auditors

Charles Burrows & Co
Chartered Accountants
& Registered Auditors
7 Palmerston Place
Edinburgh
EH12 5AH

ORGANIC FARM FOODS (SCOTLAND) LTD

THE DIRECTORS' REPORT

YEAR ENDED 31 MARCH 1999

The directors have pleasure in presenting their report and the financial statements of the company for the year ended 31 March 1999.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company during the year was the processing, packaging, distribution and marketing of organic foodstuffs.

The directors are satisfied with the results for the year and are hopeful for continued improvement in future years. The directors do not consider that the "Year 2000" problem will give rise to any material problems to the trading of the company. The company continued to operate their Profit Related Pay Scheme. During the year the company made payment of £12,500 to the Scottish Agricultural College as a contribution towards their Industrial Research Costs.

RESULTS AND DIVIDENDS

The trading results for the year, and the company's financial position at the end of the year are shown in the attached financial statements.

The directors have not recommended a dividend.

THE DIRECTORS AND THEIR INTERESTS IN SHARES OF THE COMPANY

The directors who served the company during the year were as follows:

R M Kingdon
P Segger

The company is a wholly owned subsidiary and the interests of group directors are disclosed in the accounts of the parent company.

| | | Number of Shares | |
|-------------|----------------------------|------------------|---------|
| | | 1999 | 1998 |
| R M Kingdon | A Ordinary shares of £1 | 10,000 | 10,000 |
| P Segger | A Ordinary shares of £1 | 69,600 | 69,600 |
| | B Ordinary shares of £0.25 | 100,000 | 100,000 |

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 at the end of the year and of the profit or loss for the year then ended.

In preparing those financial statements, the directors are required to select suitable accounting policies, as described on page 7, and then apply them on a consistent basis, making judgements and estimates that are prudent and reasonable. The directors must also prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

ORGANIC FARM FOODS (SCOTLAND) LTD

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 MARCH 1999

DIRECTORS' RESPONSIBILITIES *(continued)*

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. The directors 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.

CLOSE COMPANY PROVISIONS

In the opinion of the directors, the company is a close company within the meaning of S.414 Income and Corporation Taxes Act, 1988 (as amended).

AUDITORS

A resolution to re-appoint Charles Burrows & Co as auditors for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

Registered office:
49 Queen Street
Edinburgh
EH2 3NH

Signed by order of the directors



S BROWN
Company Secretary

Approved by the directors on 19 November 1999

ORGANIC FARM FOODS (SCOTLAND) LTD

AUDITORS' REPORT TO THE SHAREHOLDERS

YEAR ENDED 31 MARCH 1999

We have audited the financial statements on pages 5 to 12 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE AUDITORS

As described on pages 2 to 3, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the company's state of affairs as at 31 March 1999 and of its profit for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

7 Palmerston Place
Edinburgh
EH12 5AH

19 November 1999



CHARLES BURROWS & CO
Chartered Accountants
& Registered Auditors

ORGANIC FARM FOODS (SCOTLAND) LTD

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 MARCH 1999

| | Note | 1999 £ | 1998 £ |
|--|------|-------------|-------------|
| TURNOVER | 2 | 4,022,952 | 3,661,458 |
| Cost of sales | | (3,365,295) | (3,117,941) |
| GROSS PROFIT | | 657,657 | 543,517 |
| Distribution costs | | (106,880) | (96,269) |
| Administrative expenses | | (277,408) | (259,850) |
| Other operating income | 3 | 18,000 | 14,000 |
| OPERATING PROFIT | 4 | 291,369 | 201,398 |
| Other interest receivable | | 1,455 | 1,339 |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | 292,824 | 202,737 |
| Tax on profit on ordinary activities | 7 | (107,767) | (62,570) |
| RETAINED PROFIT FOR THE FINANCIAL YEAR | | 185,057 | 140,167 |
| Balance brought forward | | 302,390 | 162,223 |
| Balance carried forward | | 487,447 | 302,390 |

The company has no recognised gains or losses other than the results for the year as set out above.

All of the activities of the company are classed as continuing.

The notes on pages 7 to 12 form part of these financial statements.

ORGANIC FARM FOODS (SCOTLAND) LTD

BALANCE SHEET

31 MARCH 1999

| | Note | 1999 | 1998 |
|---|------|------------------|------------------|
| | | £ | £ |
| FIXED ASSETS | | | |
| Tangible assets | 8 | 267,032 | 345,917 |
| CURRENT ASSETS | | | |
| Stocks | 9 | 51,770 | 45,584 |
| Debtors | 10 | 442,331 | 170,456 |
| Cash at bank and in hand | | 24,450 | 4,953 |
| | | <u>518,551</u> | <u>220,993</u> |
| CREDITORS: Amounts falling due within one year | 11 | <u>(217,576)</u> | <u>(205,730)</u> |
| NET CURRENT ASSETS | | <u>300,975</u> | <u>15,263</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>568,007</u> | <u>361,180</u> |
| PROVISIONS FOR LIABILITIES AND CHARGES | | | |
| Deferred taxation | 12 | (36,460) | (16,690) |
| GOVERNMENT GRANTS | 13 | <u>(44,000)</u> | <u>(42,000)</u> |
| | | <u>487,547</u> | <u>302,490</u> |
| CAPITAL AND RESERVES | | | |
| Called-up equity share capital | 16 | 100 | 100 |
| Profit and loss account | 17 | 487,447 | 302,390 |
| SHAREHOLDERS' FUNDS | 18 | <u>487,547</u> | <u>302,490</u> |

These financial statements were approved by the directors on the 19 November 1999 and are signed on their behalf by:



R M KINGDON

The notes on pages 7 to 12 form part of these financial statements.

ORGANIC FARM FOODS (SCOTLAND) LTD

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 1999

1. ACCOUNTING POLICIES

Basis of accounting

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

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes a consolidated cashflow statement.

Turnover

The turnover shown in the profit and loss account represents amounts invoiced during the year, exclusive of Value Added Tax.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Plant and machinery 20%, 25% and 33% straight line

Fixtures and fittings 10% and 33% straight line

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits as incurred.

Deferred taxation

Provision is made, under the liability method, to take account of timing differences between the treatment of certain items for accounts purposes and their treatment for tax purposes. Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is considered that a net liability may arise.

Government grants

Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments.

Grants of a revenue nature are credited to income in the period to which they relate.

2. TURNOVER

The turnover and profit before tax are attributable to the one principal activity of the company.

ORGANIC FARM FOODS (SCOTLAND) LTD

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 1999

3. OTHER OPERATING INCOME

| | 1999 £ | 1998 £ |
|------------------------|---------------|---------------|
| Other operating income | <u>18,000</u> | <u>14,000</u> |

4. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

| | 1999 £ | 1998 £ |
|---|--------------|--------------|
| Amortisation of government grants | (18,000) | (14,000) |
| Depreciation | 90,755 | 84,131 |
| Auditors' remuneration - as auditors | <u>1,500</u> | <u>1,500</u> |

5. PARTICULARS OF EMPLOYEES

The average monthly number of staff employed by the company during the financial year amounted to:

| | 1999 No. | 1998 No. |
|---------------------------------------|-------------|-------------|
| Number of production staff | 35 | 35 |
| Number of office and management staff | <u>4</u> | <u>4</u> |
| | <u>39</u> | <u>39</u> |

The aggregate payroll costs of the above were:

| | 1999 £ | 1998 £ |
|-----------------------|----------------|----------------|
| Wages and salaries | 451,880 | 421,612 |
| Social security costs | <u>39,279</u> | <u>32,882</u> |
| | <u>491,159</u> | <u>454,494</u> |

6. DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were:

| | 1999 £ | 1998 £ |
|-----------------------|---------------|---------------|
| Emoluments receivable | <u>58,500</u> | <u>67,650</u> |

ORGANIC FARM FOODS (SCOTLAND) LTD

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 1999

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

| | 1999 £ | 1998 £ |
|---|----------------|---------------|
| In respect of the year: | | |
| Corporation tax based on the results for the year at 31% (1998 - 31%) | 90,929 | 59,525 |
| Increase in deferred tax provision (Note 12): | | |
| Capital allowances | <u>19,770</u> | <u>3,045</u> |
| | 110,699 | 62,570 |
| Adjustment in respect of previous years: | | |
| Corporation tax | <u>(2,932)</u> | <u>-</u> |
| | <u>107,767</u> | <u>62,570</u> |

8. TANGIBLE FIXED ASSETS

| | Plant & Machinery £ | Fixtures & Fittings £ | Total £ |
|---|------------------------|--------------------------|----------------|
| COST | | | |
| At 1 April 1998 | 411,635 | 128,537 | 540,172 |
| Additions | <u>11,870</u> | <u>-</u> | <u>11,870</u> |
| At 31 March 1999 | <u>423,505</u> | <u>128,537</u> | <u>552,042</u> |
| DEPRECIATION | | | |
| At 1 April 1998 | 168,065 | 26,190 | 194,255 |
| Charge for the year | <u>77,901</u> | <u>12,854</u> | <u>90,755</u> |
| At 31 March 1999 | <u>245,966</u> | <u>39,044</u> | <u>285,010</u> |
| NET BOOK VALUE | | | |
| At 31 March 1999 | <u>177,539</u> | <u>89,493</u> | <u>267,032</u> |
| At 31 March 1998 | <u>243,570</u> | <u>102,347</u> | <u>345,917</u> |
| Capital commitments | | | |
| | 1999 £ | | 1998 £ |
| Contracted but not provided for in the accounts | <u>7,975</u> | | <u>-</u> |

ORGANIC FARM FOODS (SCOTLAND) LTD

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 1999

9. STOCKS

| | 1999 £ | 1998 £ |
|--------------------|---------------|---------------|
| Finished goods | 6,414 | 17,477 |
| Stock of packaging | 45,356 | 28,107 |
| | <u>51,770</u> | <u>45,584</u> |

10. DEBTORS

| | 1999 £ | 1998 £ |
|------------------------------------|----------------|----------------|
| Trade debtors | 33,060 | 29,112 |
| Amounts owed by group undertakings | 370,916 | 95,136 |
| VAT recoverable | 37,203 | 45,056 |
| Prepayments and accrued income | 1,152 | 1,152 |
| | <u>442,331</u> | <u>170,456</u> |

11. CREDITORS: Amounts falling due within one year

| | 1999 £ | £ | 1998 £ | £ |
|---|--------------|----------------|---------------|----------------|
| Trade creditors | | 112,628 | | 98,602 |
| Other creditors including taxation and social security: | | | | |
| Corporation tax | 90,929 | | 57,886 | |
| PAYE and social security | <u>8,794</u> | | <u>20,295</u> | |
| | | 99,723 | | 78,181 |
| Accruals and deferred income | | <u>5,225</u> | | <u>28,947</u> |
| | | <u>217,576</u> | | <u>205,730</u> |

ORGANIC FARM FOODS (SCOTLAND) LTD

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 1999

12. DEFERRED TAXATION

The movement in the deferred taxation provision during the year was:

| | 1999 £ | 1998 £ |
|---------------------------|---------------|---------------|
| Provision brought forward | 16,690 | 13,645 |
| Increase in provision | 19,770 | 3,045 |
| Provision carried forward | <u>36,460</u> | <u>16,690</u> |

The provision for deferred taxation consists of the tax effect of timing differences in respect of:

| | 1999 £ | 1998 £ |
|---|---------------|---------------|
| Excess of taxation allowances over depreciation on fixed assets | <u>36,460</u> | <u>16,690</u> |

13. GOVERNMENT GRANTS

| | 1999 £ | 1998 £ |
|---------------------------------|---------------|---------------|
| Received and receivable: | | |
| At 1 April 1998 | 70,000 | 70,000 |
| Receivable during year | <u>20,000</u> | - |
| At 31 March 1999 | <u>90,000</u> | <u>70,000</u> |

Amortisation:

| | | |
|-----------------------------------|---------------|---------------|
| At 1 April 1998 | 28,000 | 14,000 |
| Credit to profit and loss account | <u>18,000</u> | <u>14,000</u> |
| At 31 March 1999 | <u>46,000</u> | <u>28,000</u> |
| Net balance at 31 March 1999 | <u>44,000</u> | <u>42,000</u> |

14. COMMITMENTS UNDER OPERATING LEASES

At 31 March 1999 the company had annual commitments under non-cancellable operating leases as set out below.

| | Land & Buildings 1999 £ | 1998 £ |
|--------------------------------|-------------------------------|---------------|
| Operating leases which expire: | | |
| After more than 5 years | <u>25,500</u> | <u>25,500</u> |

ORGANIC FARM FOODS (SCOTLAND) LTD

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 1999

15. RELATED PARTY TRANSACTIONS

The company is a wholly owned subsidiary of Organic Farm Foods (Wales) Limited.

During the year the company purchased £1,741,906 (1998:£1,627,666) of stock and £294,301 (1998:£262,781) of packaging materials from Organic Farm Foods (Wales) Limited. In addition the company paid £36,000 (1998:£36,000) to Organic Farm Foods (Wales) Limited by way of a management charge. Both companies are related by way of common control of the directors.

Organic Farm Foods (Wales) Limited owed Organic Farm Foods (Scotland) Limited £370,916 at 31 March 1998 (1998:£95,136).

16. SHARE CAPITAL

Authorised share capital:

| | 1999 £ | 1998 £ |
|--------------------------------|------------|------------|
| 100 Ordinary shares of £1 each | <u>100</u> | <u>100</u> |

Allotted, called up and fully paid:

| | 1999 £ | 1998 £ |
|------------------------|------------|------------|
| Ordinary share capital | <u>100</u> | <u>100</u> |

17. PROFIT AND LOSS ACCOUNT

| | 1999 £ | 1998 £ |
|--|----------------|----------------|
| Balance brought forward | 302,390 | 162,223 |
| Retained profit for the financial year | <u>185,057</u> | <u>140,167</u> |
| Balance carried forward | <u>487,447</u> | <u>302,390</u> |

18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | 1999 £ | 1998 £ |
|------------------------------------|----------------|----------------|
| Profit for the financial year | 185,057 | 140,167 |
| Opening shareholders' equity funds | <u>302,490</u> | <u>162,323</u> |
| Closing shareholders' equity funds | <u>487,547</u> | <u>302,490</u> |

19. ULTIMATE PARENT COMPANY

The company is a 100% owned subsidiary of Organic Farm Foods (Wales) Limited.