Aquascot Group Limited

Report and Financial Statements

30 December 2003

107209

ERNST & YOUNG

Registered No: Sc107209

Directors
P C Williams
D K Overton
R R Murray

Secretary
John Christie

Auditors
Ernst & Young LLP
Moray House
16 Bank Street
Inverness
IV1 1QY

Registered office
16 Charlotte Square
Edinburgh
EH2 4DF

Ernst & Young

Directors' report

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

Results and dividends

The loss for the year amounted to £739,678. The directors do not recommend the payment of any dividends. Preference dividends were not paid nor are proposed.

Principal activities and review of the business

The principal activity of the company during the year was that of aquaculture and food processing of related products.

The company has continued to suffer from the difficult trading climate within the salmon farming industry.

Events since the balance sheet date

The company is presently negotiating with a management team who are seeking to acquire the trade and certain assets of the company.

Directors

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

P C Williams
D K Overton
R R Murray

The directors holding office at 30 December 2003 did not hold any beneficial interest in the issued share capital of the company at 31 December 2002 or 30 December 2003. The interests of P Williams in the ultimate parent company are disclosed in those financial statements.

Donations

Donations in the year totalled £255. No donations were made to political parties.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the board

D K Overton

Director
1 June 2004

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. 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; and
- 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 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.

Independent auditors' report

to the member of Aquascot Group Limited

We have audited the company's financial statements for the year ended 30 December 2003 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 22. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's member, 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 member those matters we are required to state to them in an auditors' 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 and the company's member as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

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

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.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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.

Independent auditors' report

to the member of Aquascot Group Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 30 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Inverness

9/6 2004

Profit and loss account
for the year ended 30 December 2003

	Notes	2003 £	2002 £
Turnover	3	15,448,869	20,256,429
Cost of sales		13,295,959	21,322,729
Gross profit/(loss)		2,152,910	(1,066,300)
Administrative expenses		2,552,225	2,678,228
Other operating income		–	(41,742)
Operating loss	4	(399,315)	(3,702,786)
Interest payable	7	550,363	2,357,017
Loss on ordinary activities before taxation		(949,678)	(6,059,803)
Tax on loss on ordinary activities	8	(210,000)	–
Loss for the financial year		(739,678)	(6,059,803)

Statement of total recognised gains and losses
There are no recognised gains or losses other than the loss of £739,678 attributable to the shareholder for the year ended 30 December 2003 (2002 - loss of £6,059,803).

Balance sheet
at 30 December 2003

	Notes	2003 £	2002 £
Fixed assets			
Tangible assets	9	1,700,065	4,438,161
Investments	10	–	150,999
		1,700,065	4,589,160
Current assets			
Stocks	11	218,339	339,774
Debtors	12	38,255,085	35,203,300
Cash at bank and in hand		8,663	239,829
		38,482,087	35,782,903
Creditors: amounts falling due within one year	13	2,010,369	4,971,298
Net current assets		36,471,718	30,811,605
Total assets less current liabilities		38,171,783	35,400,765
Creditors: amounts falling due after more than one year	14	43,780,877	40,242,656
Accruals and deferred income			
Deferred government grants	16	–	27,525
		(5,609,094)	(4,869,416)
Capital and reserves			
Called up share capital	19	438,812	438,812
Share premium account	20	1,504,820	1,504,820
Other reserves	20	1,000	1,000
Profit and loss account	20	(7,553,726)	(6,814,048)
		(5,609,094)	(4,869,416)
Shareholder's funds:	20		
Equity		(5,622,274)	(4,882,596)
Non-equity		13,180	13,180
		(5,609,094)	(4,869,416)

D K Overton
Director

R R Murray
Director

1 June 2004

Notes to the financial statements
at 30 December 2003

1. Fundamental accounting concept

The company is dependant on continuing finance being made available by it's ultimate parent company, Cermaq ASA, to enable it to continue operating and to meet its liabilities as they fall due.

Cermaq ASA has agreed to provide sufficient funds to the company for these purposes; it has also agreed not to recall amounts advanced to the company which as at 30 December 2003 amounted to £43,780,877 (see note 14) until all other creditors have been met. On this basis, the directors consider it appropriate to prepare the financial statements on the going concern basis. The financial statements do not include any adjustments that would result should continuing finance cease to be available.

2. Accounting policies

Basis of preparation

The financial statements are 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 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes consolidated financial statements.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Freehold Property	-	5% on cost
Plant & Equipment	-	10 - 25% on cost
Motor Vehicles	-	25% on cost

Government grants

Government grants in respect of capital expenditure and treated as deferred income and are released to the profit and loss account over a four year period. As the period does not match that over which the relevant assets are depreciated, this policy is not strictly in accordance with SSAP4. However, the effect of the departure from SSAP4 is not material to the results of the period.

Grants of a revenue nature are credited to the profit and loss account in the same period as the expenditure to which they relate.

Stocks

Stock is valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Cost comprises actual purchase cost, feeding cost and attributable labour and production overheads based on the normal level of activity. Net realisable value is based on estimated selling price less estimated selling cost and additional costs to be incurred between the balance sheet date and the date of sale.

Notes to the financial statements
at 30 December 2003

2. Accounting policies (continued)

Deferred taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

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 retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Leasing and hire purchase commitments
Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts, are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Pension costs
The company operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

Fixed asset investments
Fixed asset investments are shown at cost less provision for impairment.

Notes to the financial statements
at 30 December 2003

3. Turnover
Turnover, which excludes value added tax and trade discounts, represents the invoiced value of goods and services supplied.

An analysis of turnover by geographical market is given below:

	2003	*2002*
	£	*£*
United Kingdom	15,448,869	16,777,000
EC Countries	–	2,443,000
Other Countries	–	1,036,429
	15,448,869	20,256,429

4. Operating loss
This is stated after charging/(crediting):

	2003	*2002*
	£	*£*
Auditors' remuneration - audit services	10,500	10,000
- non-audit services	–	–
	10,500	10,000
Depreciation of owned fixed assets	275,377	296,095
Depreciation of assets held under finance leases and hire purchase contracts	12,187	29,980
	287,564	326,075
Loss on disposal of fixed assets	–	4,984
Operating lease rentals - plant and machinery	69,731	34,152
Net profit on foreign currency translation	(11,065)	(4,192)
Government grants released re fixed assets	(13,914)	(41,742)

5. Staff costs

	2003	*2002*
	£	*£*
Wages and salaries	2,309,482	3,846,085
Social security costs	333,984	305,103
Other pension costs	44,193	83,695
	2,687,659	4,234,883

The monthly average number of employees during the year was as follows:

	2003	*2002*
	No.	*No.*
Total employees	151	268

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Notes to the financial statements
at 30 December 2003

6. Directors' emoluments

	2003	*2002*
	£	*£*
Emoluments	66,699	125,323
Value of company pension contributions to money purchase schemes	5,500	12,532

	2003	*2002*
	No.	*No.*
Members of money purchase pension schemes	1	2

7. Interest payable

	2003	*2002*
	£	*£*
Interest payable to group companies	538,944	2,337,385
Discounting interest	11,419	19,632
	550,363	2,357,017

8. Tax
Tax on loss on ordinary activities
The tax credit is made up as follows:

	2003	*2002*
	£	*£*
Current tax:		
UK corporation tax	(210,000)	–
Total current tax	(210,000)	–

No liability to UK corporation tax arose on ordinary activities for the year ended 30 December 2003 nor the preceding period. A nil tax charge arises through the level of accumulated losses and the significant loss for the year. The tax credit of £210,000 represents the charge made to fellow group undertakings for the surrender of group relief.

Notes to the financial statements
at 30 December 2003

9. Tangible fixed assets

	Freehold Property £	*Plant & Equipment* £	*Motor Vehicles* £	*Total* £
Cost:				
At 31 December 2002	1,517,717	5,239,983	173,022	6,930,722
Additions	136,103	370,175	–	506,278
Disposals	–	(318,328)	–	(318,328)
Transfers	(601,190)	(3,283,058)	(173,022)	(4,057,270)
At 30 December 2003	1,052,630	2,008,772	–	3,061,402
Depreciation:				
At 31 December 2002	624,559	1,767,001	101,001	2,492,561
Provided during the year	24,829	258,644	4,091	287,564
Disposals	–	(237,704)	–	(237,704)
Transfer	(319,714)	(756,278)	(105,092)	(1,181,084)
At 30 December 2003	329,674	1,031,663	–	1,361,337
Net book value:				
At 30 December 2003	722,956	977,109	–	1,700,065
At 31 December 2002	893,158	3,472,982	72,021	4,438,161

The net book value of assets above includes an amount of £72,012 (2002 - £106,917) in respect of assets held under finance leases and hire purchase contracts.

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Notes to the financial statements
at 30 December 2003

10. Investments

	Shares in group companies brought forward
	£
Cost:	
At 31 December 2002 & 30 December 2003	150,999
Amounts provided:	
Written off for the year	150,999
At 30 December 2003	150,999
Net book value:	
At 30 December 2003	–
Net book value:	
At 31 December 2002	150,999

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows:

Name of company	*Holding*	*Proportion of voting rights and shares held*	*Nature of business*
Mainstream Scotland Limited	Ordinary	100%	Fish farming
West Coast Aquaculture Limited	Ordinary	100%	Dormant

11. Stocks

	2003	*2002*
	£	*£*
Fish stock	218,339	339,774

12. Debtors

	2003	*2002*
	£	*£*
Trade debtors	1,072,758	2,521,829
Amounts owed by group undertakings	37,067,402	32,443,064
Other debtors	42,623	126,287
Prepayments and accrued income	72,302	112,120
	38,255,085	35,203,300

Notes to the financial statements
at 30 December 2003

13. Creditors: amounts falling due within one year

	2003	*2002*
	£	*£*
Amounts due in respect of financed receivables	654,272	2,950,851
Bank overdrafts	435,521	–
Obligations under finance leases and hire purchase contracts (note 15)	3,923	64,964
Trade creditors	578,748	914,194
Amounts owed to group undertakings	–	509,996
Other creditors	32,678	97,762
Accruals and deferred income	305,227	433,531
	2,010,369	4,971,298

14. Creditors: amounts falling due after more than one year

	2003	*2002*
	£	*£*
Obligations under finance leases and hire purchase contracts (note 15)	–	3,853
Amounts owed to group undertakings	43,780,877	40,238,803
	43,780,877	40,242,656

There are no fixed repayment terms to the group undertaking loans and interest is presently charged at 1.8% above LIBOR.

15. Obligations under finance leases and hire purchase contracts

The maturity of these amounts is as follows:

	2003	*2002*
	£	*£*
Amounts payable:		
Within one year	3,923	76,332
In one to two years	–	4,527
	3,923	80,859
Less: finance charges allocated to future periods	–	(12,042)
	3,923	68,817

16. Accruals and deferred income

	Deferred government grants	
	2003	*2002*
	£	*£*
Balance as at 31 December	27,525	210,790
Repaid during the year	(13,611)	(141,523)
Released during the year	(13,914)	(41,742)
Balance as at 30 December	–	27,525

Notes to the financial statements
at 30 December 2003

17. Commitments under operating leases
At 30 December 2003 the company had annual commitments under non-cancellable operating leases as set out below.

	2003 Land and buildings £	*2003* Other £	*2002* Land and buildings £	*2002* Other £
Operating leases which expire:				
Within one year	–	5,888	–	6,874
In two to five years	31,235	11,815	35,000	67,668
	31,235	17,703	35,000	74,542

18. Related party transactions
As a wholly owned subsidiary, the company has availed itself of the exemption in FRS8 from disclosing related party transactions within other group undertakings and investees.

19. Share capital

	Authorised *2003* £	*2002* £
A Ordinary shares of £1 each	249,488	249,488
C Ordinary shares of £1 each	176,144	176,144
1050% Cumulative Redeemable C Preference shares of £0.01 each	5,680	5,680
Cumulative D Preference shares of £0.01 each	7,500	7,500
	438,812	438,812

	Allotted, called up and fully paid *2003* No.	*2003* £	*2002* No.	*2002* £
A Ordinary shares of £1 each	249,488	249,488	249,488	249,488
C Ordinary shares of £1 each	176,144	176,144	176,144	176,144
1050% Cumulative Redeemable C Preference shares of £0.01 each	568,000	5,680	568,000	5,680
Cumulative D Preference shares of £0.01 each	750,000	7,500	750,000	7,500
		438,812		438,812

Notes to the financial statements
at 30 December 2003

19. Share capital (continued)

The 'C' ordinary shares are entitled to a cumulative preferential dividend of 20% of the profit attributable to members.

The 'C' preference shares have first call over the company's assets in the event of a winding up or liquidation or similar event. Thereafter, the remaining assets are applied in order to the 'D' preference shares, the 'C' ordinary shares, and finally the 'A' ordinary shares. The sums received are restricted for all categories other than the 'A' ordinary shares, to the sum subscribed plus arrears of dividends.

The 'C' preference shares are redeemable in equal annual instalments of £710 together with a premium of £70,290 from 30 June 1998 to 30 June 2005. The first 6 redemptions on 30 June 1998, 30 June 1999, 30 June 2000, 30 June 2001, 30 June 2002 and 30 June 2003 have not been made. On redemption the holders of 'C' preference shares are entitled to a special dividend of 10p per share. At the shareholders' direction this will be paid either as a dividend or the redemption price will be increased to reflect this.

The 'D' preference shares are redeemable in equal annual instalments of £1,500 together with a premium of £188,500 from 30 June 2003 to 30 June 2007. The first redemption on 30 June 2003 has not been made.

The premiums payable on redemption are annual and not aggregate.

20. Reconciliation of shareholders' funds and movement on reserves

	Share capital	*Share premium account*	*Capital redemption reserve*	*Profit and loss account*	*Total shareholders' funds*
	£	£	£	£	£
At 31 December 2001	438,812	1,504,820	1,000	(754,245)	1,190,387
Loss for the year	–	–	–	(6,059,803)	(6,059,803)
At 30 December 2002	438,812	1,504,820	1,000	(6,814,048)	(4,869,416)
Loss for the year	–	–	–	(739,678)	(739,678)
At 30 December 2003	438,812	1,504,820	1,000	(7,553,726)	(5,609,094)

21. Post balance sheet events

The company is presently negotiating with a management team who are seeking to acquire the trade and certain assets of the company.

22. Ultimate parent company

The ultimate parent company at the balance sheet date was Cermaq ASA, a company registered in Norway. The immediate parent company is EWOS Ltd. The company's accounts are consolidated into Cermaq ASA's group results. Parent company accounts can be obtained by writing to Cermaq ASA, Grev Wedels Plass 5, Postboks 472, Sentrun 0105, Oslo.