

COMPANY No. 05183743

**REPORT OF THE DIRECTORS AND
AUDITED FINANCIAL STATEMENTS FOR THE PERIOD 5 JULY 2009 TO 3 JULY 2010
FOR
ELLA'S KITCHEN (BRANDS) LIMITED**

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ELLA'S KITCHEN (BRANDS) LIMITED
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FOR THE PERIOD 5 JULY 2009 TO 3 JULY 2010

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ELLA'S KITCHEN (BRANDS) LIMITED
COMPANY INFORMATION
FOR THE PERIOD 5 JULY 2009 TO 3 JULY 2010

DIRECTORS:

Mr P Lindley
Mrs A Lindley
Mr D Struthers
Mr T Macready
Mr C Britton

SECRETARY:

2020 Secretarial Limited

REGISTERED OFFICE

1 St Andrew's Hill
London
EC4V 5BY

REGISTERED NUMBER

05183743 (England and Wales)

AUDITORS

KPMG LLP
Chartered Accountants
Statutory Auditor
Arlington Business Park
Theale
Reading
Berkshire
RG7 4SD

ELLA'S KITCHEN (BRANDS) LIMITED
REPORT OF THE DIRECTORS
FOR THE PERIOD 5 JULY 2009 TO 3 JULY 2010

The directors present their report with the financial statements of the company for the period 5 July 2009 to 3 July 2010

PRINCIPAL ACTIVITY

The principal activity of the company was that of the manufacture and distribution of children's and baby food

REVIEW OF BUSINESS

The company experienced continued and considerable financial, operational and brand success during the year. Turnover increased by 80% over the previous year, due to a mix of increases in product range, distribution points and rates of sale. Nineteen new products were launched and five brand new ranges

Such successes were built through increases in team members and skills together with professionalised structures, processes and IT systems. The successes have also been reflected in numerous awards won during the year, including The Food and Drink Brand of the Year at the Grocer Gold Awards, whilst the company was also recognised as the 9th fastest growing private company in the UK in the 2009 Fast Track 100 table.

In the first weeks of the year the company invited its first minority shareholders to support continued growth with investment and Board representation. Ella's Kitchen is therefore perfectly equipped to continue its stellar performance and achieve its mission of reaching 200 Million Tiny Tummy Touch Points by June 2012.

Key Performance Indicators

The directors track growth in turnover, maintenance of gross profit margin, and achievement of profit before tax against budget as the key financial performance indicators. They also have a high-level goal to achieve a cumulative target of 200 million Tiny Tummy Touch Points (TTTP's") by June 2012. This is a long-term sales goal, where one TTTP represents one unit of product sold.

Principal Risks and Uncertainties

The directors believe the principal risks facing the business to be

Brand reputation The directors seek to mitigate the risk to the reputation of the company's brands by investing in an enhanced quality control programme, external support, additional team resources and the refining of a crisis management team and protocol.

Cash flow during times of exceptional sales growth The directors seek to mitigate the risk of adverse cash flows during expansion by cultivating a strong and open relationship with the Group's banking partner, to ensure that significant credit lines are available.

Exposure to foreign currency movements A significant proportion of the company's cost of sales is denominated in Euros, whilst a significant proportion of revenues are denominated in Sterling. The directors seek to mitigate the currency risk inherent in this situation by having hedging facilities established and operating, together with a strategic focus on export into Europe to enhance the Euro revenue stream.

DIRECTORS

The directors shown below have held office during the whole of the period from 5 July 2009 to the date of this report.

Mr P Lindley
Mrs A Lindley
Mr D Struthers

Other changes in directors holding office are as follows:

Mr T Macready - appointed 18 September 2009

Mr C Britton - appointed 18 September 2009

ELLA'S KITCHEN (BRANDS) LIMITED

**REPORT OF THE DIRECTORS
FOR THE PERIOD 5 JULY 2009 TO 3 JULY 2010**

DIVIDENDS

No dividends will be distributed for the period ended 3 July 2010. The total distribution of dividends for the period ended 4 July 2009 was £102,750.

POST BALANCE SHEET EVENT

On 9 September 2010 the company announced that it was withdrawing certain batches and date codes of its baby food because of possible microbial spoilage inside the straw of the packets. Further details on the withdrawal are given in Note 23.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

The auditors, KPMG LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD.


Mr P Lindley - Director

Date 17/12/10



**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
ELLA'S KITCHEN (BRANDS) LIMITED**

We have audited the financial statements of Ella's Kitchen (Brands) Limited for the period ended 3rd July 2010 set out on pages 5 to 15. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 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 members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 3rd July 2010 and of its profit for the period then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

SC Barker (Senior Statutory Auditor)
for and on behalf of KPMG, Statutory Auditor
Chartered Accountants
Arlington Business Park
Theale
Reading
RG7 4SD

23 December 2010

Company No 05183743

ELLA'S KITCHEN (BRANDS) LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE PERIOD 5 JULY 2009 TO 3 JULY 2010

	Notes	Period 5/7/09 to 3/7/10 £	Period 1/7/08 to 4/7/09 £
TURNOVER	2	15,143,288	8,418,463
Cost of sales		<u>(10,806,078)</u>	<u>(6,602,092)</u>
GROSS PROFIT		4,337,210	1,816,371
Administrative expenses		<u>(2,954,092)</u>	<u>(1,288,308)</u>
		1,383,118	528,063
Other operating income		<u>-</u>	<u>175</u>
OPERATING PROFIT	4	1,383,118	528,238
Interest receivable and similar income	5	<u>-</u>	<u>1,705</u>
		1,383,118	529,943
Interest payable and similar charges		<u>(69,845)</u>	<u>(26,984)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,313,273	502,959
Tax charge on profit on ordinary activities	6	<u>(369,986)</u>	<u>(123,296)</u>
PROFIT FOR THE FINANCIAL PERIOD AFTER TAXATION		<u>943,287</u>	<u>379,663</u>

CONTINUING OPERATIONS

There is no difference between the company's results as reported and on an historical basis. Accordingly, no note of historical cost profit and loss has been prepared.

The turnover and profits were all derived from continuing activities.

TOTAL RECOGNISED GAINS AND LOSSES

The company has no recognised gains or losses other than the profits for the current period or previous period.

The notes on pages 7 to 15 form part of these financial statements

ELLA'S KITCHEN (BRANDS) LIMITED

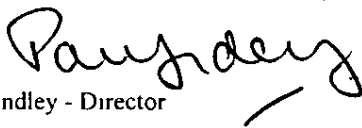
**BALANCE SHEET
3 JULY 2010**

	Notes	£	3/7/10	£	4/07/09	£
FIXED ASSETS						
Tangible assets	8			189,830		116,855
CURRENT ASSETS						
Stocks	9	2,967,376			1,508,275	
Debtors	10	4,042,007			1,910,581	
Cash at bank and in hand		<u>162,221</u>			<u>142,441</u>	
			7,171,604			3,561,297
CREDITORS						
Amounts falling due within one year	11	<u>(5,737,456)</u>			<u>(3,044,666)</u>	
NET CURRENT ASSETS				<u>1,434,148</u>		<u>516,631</u>
TOTAL ASSETS LESS CURRENT LIABILITIES				1,623,978		633,486
PROVISIONS FOR LIABILITIES	14			<u>(23,015)</u>		<u>(11,931)</u>
NET ASSETS				<u>1,600,963</u>		<u>621,555</u>
CAPITAL AND RESERVES						
Called up share capital	15			100		100
Other reserves	16			36,121		-
Profit and loss account	16			<u>1,564,742</u>		<u>621,455</u>
SHAREHOLDERS' FUNDS	21			<u>1,600,963</u>		<u>621,555</u>

The financial statements were approved by the Board of Directors on behalf by

17/12/10

and were signed on its



Mr P Lindley - Director

Company No 05183743

The notes on pages 7 to 15 form part of these financial statements

ELLA'S KITCHEN (BRANDS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 5 JULY 2009 TO 3 JULY 2010**

1 ACCOUNTING POLICIES

Accounting convention

The financial statements have been prepared under the historical cost convention

Going concern

The use of the going concern basis of accounting is appropriate because there are no material uncertainties related to events or conditions that may cast significant doubt about the ability of the company to continue as a going concern

Financial Reporting Standard Number 1

Exemption has been taken from preparing a cash flow statement on the grounds that the parent company includes the subsidiary in its published financial statements

Turnover

Turnover, which is stated net of value added tax, represents the invoiced amounts of goods sold to third parties less the cost of direct price promotions. Revenue is recognised on delivery of the goods to the customer

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life

Plant and machinery	- 33% on cost
Fixtures and fittings	- 25% on cost
Computer equipment	- 33% on cost

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Cost is determined on a first in first out (FIFO) basis

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result. Exchange differences arising from the translation of the net investment in foreign subsidiaries, and of borrowings and other currency instruments designated as hedges of such investments, are taken to the currency translation reserve within equity

Pension costs

The company operates a defined contribution pension scheme. Contributions payable to the company's pension scheme are charged to the profit and loss account in the period to which they relate. Contributions made by the company into employee personal pension plans are charged to the profit and loss account as incurred

Equity-settled share-based payments

The company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of the grant. The fair value so determined has been expensed on a straight line basis over the vesting period, based on the company's estimate of the number of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions

Fair value is measured using a Black-Scholes-Merton option pricing model. The key assumptions used in the model have been adjusted where appropriate, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations

ELLA'S KITCHEN (BRANDS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE PERIOD 5 JULY 2009 TO 3 JULY 2010**

1 ACCOUNTING POLICIES - continued

Taxation

The tax charge comprises current tax payable and deferred tax

The current tax charge represents an estimate of the amounts payable to tax authorities in respect of the company's taxable profits and is based on an interpretation of existing tax laws

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date

Leasing commitments

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease

Invoice discounting charges

The charges for Confidential Invoice Discounting are charged to the profit and loss account as they are charged by the lender

Related party disclosures

The company has taken advantage of the exemption under paragraph 3(c) of FRS8 and has not disclosed intra-group transactions

2 TURNOVER

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

An analysis of turnover by geographical market is given below

	Period 5/7/09 to 3/7/10 £	Period 1/7/08 to 4/7/09 £
United Kingdom	13,693,294	8,164,624
Overseas	1,449,994	253,839
	<u>15,143,288</u>	<u>8,418,463</u>

3 STAFF COSTS

	Period 5/7/09 to 3/7/10 £	Period 1/7/08 to 4/7/09 £
Wages and salaries	737,546	233,660
Social security costs	68,098	24,025
Other pension costs	20,067	7,263
	<u>825,711</u>	<u>264,948</u>

ELLA'S KITCHEN (BRANDS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE PERIOD 5 JULY 2009 TO 3 JULY 2010**

3 STAFF COSTS - continued

The average monthly number of employees (including directors) during the period was as follows

	Period 5/7/09 to 3/7/10	Period 1/7/08 to 4/7/09
Administration	5	3
Operations	7	4
Management	<u>3</u>	<u>-</u>
	<u>15</u>	<u>7</u>

4 OPERATING PROFIT

The operating profit is stated after charging/(crediting)

	Period 5/7/09 to 3/7/10 £	Period 1/7/08 to 4/7/09 £
Other operating leases	16,654	7,682
Depreciation - owned assets	62,576	10,546
Audit fee	21,870	12,500
Foreign exchange differences	<u>(104,507)</u>	<u>108,752</u>
 Directors' remuneration	 177,578	 47,205
Directors' pension contributions to money purchase schemes	<u>15,638</u>	<u>7,263</u>

Included in directors' emoluments are £100,000 (2009 £28,455) of emoluments and pension contributions of £1,250 (2009 £7,263) in respect of the highest paid director

The number of directors to whom retirement benefits were accruing was as follows

Money purchase schemes	<u>3</u>	<u>1</u>
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5 INTEREST RECEIVABLE AND SIMILAR INCOME

	Period 5/7/09 to 3/7/10 £	Period 1/7/08 to 4/7/09 £
Deposit account interest	<u>-</u>	<u>1,705</u>

ELLA'S KITCHEN (BRANDS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE PERIOD 5 JULY 2009 TO 3 JULY 2010

6 TAXATION

Analysis of the tax charge

The tax charge on the profit on ordinary activities for the period was as follows

	Period 5/7/09 to 3/7/10 £	Period 1/7/08 to 4/7/09 £
Current tax		
UK corporation tax	358,902	111,365
Deferred tax	<u>11,084</u>	<u>11,931</u>
Tax on profit on ordinary activities	<u>369,986</u>	<u>123,296</u>

UK corporation tax has been charged at 28% (2009 - 28%)

Factors affecting the tax charge

The tax assessed for the period is lower than the standard rate of corporation tax in the UK. The difference is explained below

	Period 5/7/09 to 3/7/10 £	Period 1/7/08 to 4/7/09 £
Profit on ordinary activities before tax	<u>1,313,273</u>	<u>502,959</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2009 - 28%)	367,716	140,829
Effects of		
Marginal relief	-	(18,426)
Expenses not deductible for tax purposes	2,270	229
Capital allowances for period in excess of depreciation	<u>(11,084)</u>	<u>(11,267)</u>
Current tax charge	<u>358,902</u>	<u>111,365</u>

7 DIVIDENDS

	Period 5/7/09 to 3/7/10 £	Period 1/7/08 to 4/7/09 £
Ordinary shares of £1 each		
Interim	<u>-</u>	<u>102,750</u>

ELLA'S KITCHEN (BRANDS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE PERIOD 5 JULY 2009 TO 3 JULY 2010**

8 TANGIBLE FIXED ASSETS

	Plant and machinery £	Fixtures and fittings £	Computer equipment £	Totals £
COST				
At 5 July 2009	89,636	14,611	23,526	127,773
Additions	<u>106,297</u>	<u>8,929</u>	<u>20,325</u>	<u>135,551</u>
At 3 July 2010	<u>195,933</u>	<u>23,540</u>	<u>43,851</u>	<u>263,324</u>
DEPRECIATION				
At 5 July 2009	7,444	1,183	2,291	10,918
Charge for period	<u>48,668</u>	<u>3,897</u>	<u>10,011</u>	<u>62,576</u>
At 3 July 2010	<u>56,112</u>	<u>5,080</u>	<u>12,302</u>	<u>73,494</u>
NET BOOK VALUE				
At 3 July 2010	<u>139,821</u>	<u>18,460</u>	<u>31,549</u>	<u>189,830</u>
At 4 July 2009	<u>82,192</u>	<u>13,428</u>	<u>21,235</u>	<u>116,855</u>

9 STOCKS

	2010 £	2009 £
Raw materials	834,570	906,326
Finished goods	<u>2,132,806</u>	<u>601,949</u>
	<u>2,967,376</u>	<u>1,508,275</u>

10 DEBTORS

	2010 £	2009 £
Amounts falling due within one year		
Trade debtors	3,151,735	1,647,521
Amounts owed by other group companies	755,725	-
Other debtors	49,575	96,695
Prepayments & accrued income	15,220	30,795
VAT	<u>64,643</u>	<u>130,461</u>
	<u>4,036,898</u>	<u>1,905,472</u>
Amounts falling due after more than one year		
Other debtors	<u>5,109</u>	<u>5,109</u>
Aggregate amounts	<u>4,042,007</u>	<u>1,910,581</u>

ELLA'S KITCHEN (BRANDS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE PERIOD 5 JULY 2009 TO 3 JULY 2010**

11 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010	2009
	£	£
Bank loans and overdrafts (see note 12)	1,152,455	64,519
Trade creditors	1,750,058	1,511,412
Amounts owed to parent company	266,859	-
Amounts owed to fellow subsidiary	2,750	-
Tax	376,710	111,365
Social security and other taxes	23,853	-
Proposed dividends	-	102,750
Other creditors	4,674	22,540
Deferred income	17,825	-
Accrued expenses	<u>2,142,272</u>	<u>1,232,080</u>
	<u>5,737,456</u>	<u>3,044,666</u>

12 LOANS

An analysis of the maturity of loans is given below

	2010	2009
	£	£
Amounts falling due within one year or on demand		
Bank overdrafts	-	5
Bank loans	<u>1,152,455</u>	<u>64,514</u>
	<u>1,152,455</u>	<u>64,519</u>

The bank loan of £1,152,455 (2009 £64,514) represents with recourse invoice discounting and is secured on trade debtors. The rate of interest is 2% above the Lloyds TSB Bank plc base rate.

13 OPERATING LEASE COMMITMENTS

The following operating lease payments are committed to be paid within one year

	2010	2009
	£	£
Expiring		
Between one and five years	<u>26,500</u>	<u>20,000</u>

14 PROVISIONS FOR LIABILITIES

	2010	2009
	£	£
Deferred tax	<u>23,015</u>	<u>11,931</u>

ELLA'S KITCHEN (BRANDS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE PERIOD 5 JULY 2009 TO 3 JULY 2010

14 PROVISIONS FOR LIABILITIES - continued

	Deferred tax £
Balance at 5 July 2009	11,931
Origination and reversal of timing differences	<u>11,084</u>
Balance at 3 July 2010	<u><u>23,015</u></u>

The deferred tax provision is computed on accelerated capital allowances

15 CALLED UP SHARE CAPITAL

Allotted, issued and fully paid Number	Class	Nominal value £1	2010 £	2009 £
100	Ordinary		<u>100</u>	<u>100</u>

16 RESERVES

	Profit and loss account £	Other reserves £	Totals £
At 5 July 2009	621,455	-	621,455
Profit for the period	943,287		943,287
Share option reserve	<u>-</u>	<u>36,121</u>	<u>36,121</u>
At 3 July 2010	<u><u>1,564,742</u></u>	<u><u>36,121</u></u>	<u><u>1,600,863</u></u>

17 ULTIMATE PARENT COMPANY

The ultimate parent company is Ella's Kitchen Group Limited (formerly Starport Associates Limited), incorporated in England

The accounts are available at the following address

Ella's Barn
22 Greys Green Farm
Rotherfield Greys
Henley-on-Thames
Oxfordshire
RG9 4QG

ELLA'S KITCHEN (BRANDS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE PERIOD 5 JULY 2009 TO 3 JULY 2010

18 RELATED PARTY DISCLOSURES

The entire share capital of the company was acquired on 17 July 2009 by Ella's Kitchen (Group) Limited

The company has taken advantage of the exemption under paragraph 3(c) of FRS8 and has not disclosed intra-group transactions

19 OTHER FINANCIAL COMMITMENTS

The company is committed to purchase 1,729,733 euros at a rate of 1 15 over the period July to December 2010 and a further 2,753,911 euros at a rate of 1 17 over the period January to July 2011 (2009 1,012,000 euros at the rate of 1 15)

In accordance with UK GAAP, forward contracts are not held on the balance sheet

20 ULTIMATE CONTROLLING PARTY

The ultimate controlling parties are Mr P Lindley & Mrs A J Lindley who own 81% of Ella's Kitchen (Group) Limited

21 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2010 £	2009 £
Profit for the financial period	943,287	379,663
Dividends	-	(102,750)
	<u>943,287</u>	<u>276,913</u>
Employee share option scheme	36,121	-
	<u>979,408</u>	<u>276,913</u>
Net addition to shareholders' funds	979,408	276,913
Opening shareholders' funds	621,555	344,642
	<u>1,600,963</u>	<u>621,555</u>
Closing shareholders' funds	<u>1,600,963</u>	<u>621,555</u>

22 SHARE-BASED PAYMENT TRANSACTIONS

Ella's Kitchen Group Limited has one share option scheme open to employees of the Group at the discretion of the Board. Options are exercisable at a price equal to the market price of Ella's Kitchen Group Limited's shares on the date of the grant, or such exercise price as is otherwise determined at the date of the grant.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

In the Scheme the options either vest on the shares of the company being sold or listed (or other exit event), upon the completion of a period of service in the company or upon meeting specified performance conditions on or before the vesting date. Should the options remain unexercised they lapse after 10 years from the date of grant. The options also lapse following the employee leaving the Group. An estimated vesting period of 4 years has been used where vesting is dependent upon an exit event.

ELLA'S KITCHEN (BRANDS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE PERIOD 5 JULY 2009 TO 3 JULY 2010

22 SHARE-BASED PAYMENT TRANSACTIONS - continued

There were 12,518 (2009 nil) share options granted during the year and all of these were outstanding at the year end. No options were exercised, lapsed or cancelled in the year.

The fair values were calculated using a Black-Scholes Merton model. The inputs into the model were as follows:

	2010
Weighted average share price	£6.75
Weighted average exercise price	£2.94
Expected volatility	56%-57%
Risk free rate	0.5%
Expected dividend yield	Nil

Expected volatility was determined using as a base the share price movements recorded over the same period as the vesting period (from grant date to vesting date) and taking into account any specific factors impacting during the period.

The expected life used in the model has been adjusted, based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations.

The company recognised total charges of £36,121 (2009 nil) related to equity-settled share-based payment transactions during the year.

23 POST BALANCE SHEET EVENTS

On 9 September 2010 the company announced that it was withdrawing certain batches and date codes of its baby food because of possible microbial spoilage inside the straw of the packets. The microorganisms that were identified are harmless. This only affected products manufactured in one particular factory. The total costs associated with the removal and destruction of products from retail outlets, the replacement of products and other associated costs are to be determined, but are estimated to be in the region of £660,000. In accordance with the terms of its contract with the supplier, the company intends to seek a full recovery of such costs.