Natures Way Foods Limited

Financial statements

For the year ended 31 March 2003

Grant Thornton



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15/01/04

Company No. 2896421

Company information

Company registration number	2896421
Registered office	Park Farm Chichester Road Selsey West Sussex PO20 9HP
Directors	R A Langmead D W Langmead
Secretary	D W Langmead
Bankers	National Westminster Bank 5 East Street Chichester West Sussex PO19 1TS
Solicitors	Thomas Eggar 5 East Pallant Chichester West Sussex PO19 1TS
Auditors	Grant Thornton Chartered Accountants Registered Auditors Barnes Wallis Road Segensworth Hampshire PO15 5GT

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Report of the directors

The directors present their report and the financial statements of the group for the year ended 31 March 2003.

Principal activities and business review

The company was principally engaged in the processing and wholesale distribution of food products.

Results and dividends

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

The directors have recommended the following dividends:

	2003	2002
	£	£
Dividend paid on ordinary shares	**400,000**	–

The directors and their interests

The directors who served the company during the year together with their beneficial interests in the shares of the company were as follows:

	Ordinary Shares of £0.01 each	
	At 31 March 2003	At 1 April 2002
R A Langmead	**7,500,000**	7,500,000
D W Langmead	**7,500,000**	7,500,000

Directors' responsibilities

Company law in the United Kingdom 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 group at the end of the year and of the group's 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 pages 8 to 10, 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 group 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 group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Donations

During the year the company made the following contributions:

	2003	2002
	£	£
Charitable	**14,492**	9,999

Disabled employees

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities.

In the event of employees becoming disabled, every effort is given to retrain them in order that their employment with the company may continue.

It is the policy of the company that training, career development and promotion opportunities should be available to all employees.

Employee involvement

The group has continued its practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the group.

This is achieved through regular briefings to all departments in the company.

Auditors

A resolution to re-appoint Grant Thornton 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:
Park Farm
Chichester Road
Selsey
West Sussex
PO20 9HP

BY ORDER OF THE BOARD

D W Langmead
Secretary
6 November 2003

Grant Thornton

Report of the independent auditors to the members of Natures Way Foods Limited

We have audited the financial statements of Natures Way Foods Limited for the year ended 31 March 2003 on pages 11 to 27 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 to 10.

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 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

The directors' responsibilities for preparing the report of the directors and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities on pages 4 to 5.

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 other information contained in the Directors' Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of 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 group'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 of the group as at 31 March 2003 and of the profit of the group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton

GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
PORTSMOUTH

18 November 2003

Principal accounting policies

Basis of accounting

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

The directors have reviewed the principal accounting policies of the group, which are set out below, in light of FRS18, and are of the opinion that they are the most applicable accounting policies for the group.

Basis of consolidation

The consolidated accounts incorporate the accounts of the company and all group undertakings except the assets in the company's Employee Benefit Trust (EBT), which are shown as they appear in the parent company's accounts. The consolidated accounts are adjusted, where appropriate, to conform to group accounting policies. Acquisitions are accounted for under the acquisition method and goodwill on consolidation is capitalised and written off over five years from the year of acquisition. The results of companies acquired or disposed of are included in the profit and loss account after or up to the date that control passes respectively. As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the group accounts by virtue of section 230 of the Companies Act 1985.

Dividends paid by investments made by the EBT are treated as a cost in the group profit and loss account as they would be in the profit and loss of the parent company itself, if that company prepared and presented its own profit and loss account.

Turnover

The turnover shown in the profit and loss account represents amounts invoiced during the year.

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:

Freehold Property	-	50 years straight line
Leasehold Property	-	over the term of the lease
Plant & Machinery	-	3 - 10 years straight line
Fixtures & Fittings	-	3 years straight line
Motor Vehicles	-	4 years straight line

Stocks

Stocks are stated at the lower of cost and net realisable value on a first in first out basis.

Hire purchase agreements

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the Profit and Loss Account on a straight line basis.

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 on a straight line basis over the period of the lease.

Pension costs

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to the Profit and Loss Account.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

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 the transaction. Exchange differences are taken into account in arriving at the operating profit.

Employee benefit trust

Assets held by the company's Employee Benefit Trust (EBT) are included in the company's and group's balance sheet as current asset investments, subject to any provision for diminution in value, until they are unconditionally distributed to beneficiaries at the unfettered discretion of the trustees of the EBT.

Profit and loss account

	Note	2003 £	2002 £
Group turnover	1	**41,481,936**	32,984,801
Cost of sales		**33,617,992**	27,115,671
Gross profit		**7,863,944**	5,869,130
Other operating income and charges	2	**5,816,926**	3,313,262
Operating profit	3	**2,047,018**	2,555,868
Interest receivable		**–**	59,542
Interest payable and similar charges	6	**(208,212)**	(105,990)
Profit on ordinary activities before taxation		**1,838,806**	2,509,420
Tax on profit on ordinary activities	7	**716,575**	716,186
Profit on ordinary activities after taxation	8	**1,122,231**	1,793,234
Dividends	9	**400,000**	–
Retained profit for the financial year		**722,231**	1,793,234

All of the activities of the company are classed as continuing.
The company has no recognised gains or losses other than the results for the year as set out above.

The company has taken advantage of section 230 of the Companies Act 1985 not to publish its own Profit and Loss Account.

Group Balance Sheet

	Note	2003 £	2003 £	2002 £
Fixed assets				
Intangible assets	10		–	201,243
Tangible assets	11		**11,886,866**	9,475,373
			11,886,866	9,676,616
Current assets				
Stocks	13	**695,810**		410,448
Debtors	14	**3,664,271**		3,451,778
Investments	15	**54,050**		–
Cash at bank and in hand		**111,776**		731,950
		4,525,907		4,594,176
Creditors: amounts falling due within one year	16	**6,495,515**		6,469,312
Net current liabilities			**(1,969,608)**	(1,875,136)
Total assets less current liabilities			**9,917,258**	7,801,480
Creditors: amounts falling due after more than one year	17		**4,991,632**	3,752,971
			4,925,626	4,048,509
Provisions for liabilities and charges				
Deferred taxation	20		**438,219**	283,333
			4,487,407	3,765,176
Capital and reserves				
Called-up equity share capital	23		**150,000**	150,000
Profit and loss account	24		**4,337,407**	3,615,176
Shareholders' funds	25		**4,487,407**	3,765,176

These financial statements were approved by the directors on 6 November 2003 and are signed on their behalf by:



R A Langmead

Company Balance Sheet

	Note	2003 £	2003 £	2002 £
Fixed assets				
Tangible assets	11		**11,660,527**	9,254,832
Investments	12		**11**	11
			11,660,538	9,254,843
Current assets				
Stocks	13	**661,000**		386,257
Debtors	14	**4,520,027**		3,621,278
Investments	15	**54,050**		–
Cash at bank and in hand		**111,776**		717,529
		5,346,853		4,725,064
Creditors: amounts falling due within one year	16	**6,310,384**		6,067,356
Net current liabilities			**(963,531)**	(1,342,292)
Total assets less current liabilities			**10,697,007**	7,912,551
Creditors: amounts falling due after more than one year	17		**4,991,632**	3,750,731
			5,705,375	4,161,820
Provisions for liabilities and charges				
Deferred taxation	20		**438,219**	283,333
			5,267,156	3,878,487
Capital and reserves				
Called-up equity share capital	23		**150,000**	150,000
Profit and loss account	24		**5,117,156**	3,728,487
Shareholders' funds			**5,267,156**	3,878,487

These financial statements were approved by the directors on 6 November 2003 and are signed on their behalf by:



R A Langmead

Group cash flow statement

	Note	2003 £	2002 £
Net cash inflow from operating activities	26	**4,067,556**	5,233,457
Returns on investments and servicing of finance	26	**(208,212)**	(46,448)
Taxation	26	**(886,517)**	(195,632)
Capital expenditure and financial investment	26	**(2,044,307)**	(2,966,812)
Acquisitions and disposals			
Net cash acquired with subsidiary		–	17,552
Net cash inflow from acquisitions and disposals		–	17,552
Equity dividends paid		**(400,000)**	–
Cash inflow before financing		**528,520**	2,042,117
Financing	26	**(1,148,694)**	(1,097,760)
(Decrease)/increase in cash	26	**(620,174)**	944,357

The accompanying notes form part of these financial statements.

Notes to the financial statements

1 Turnover

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

An analysis of turnover is given below:

	2003	2002
	£	£
United Kingdom	**41,481,936**	32,984,801

2 Other operating income and charges

	2003	2002
	£	£
Administrative expenses	**5,816,926**	3,313,262

3 Operating profit

Operating profit is stated after charging/(crediting):

	2003	2002
	£	£
Amortisation	**201,243**	18,295
Depreciation	**1,886,901**	1,222,463
Profit on disposal of fixed assets	**–**	(80,113)
Auditors' remuneration:		
Audit fees	**15,000**	14,470
Accountancy fees	**54,182**	41,819
Operating lease costs:		
Land and buildings	**446,701**	393,076
Plant and equipment	**50,554**	28,611

4 Particulars of employees directors and employees

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

	2003	2002
	No	No
Number of production staff	362	258
Number of administrative staff	64	45
	426	303

The aggregate payroll costs of the above were:

	2003	2002
	£	£
Wages and salaries	9,486,801	6,044,569
Social security costs	731,909	536,854
Other pension costs	88,572	202,908
	10,307,282	6,784,331

5 Directors

Remuneration in respect of directors was as follows:

	2003	2002
	£	£
Emoluments receivable	206,667	111,420
From employee benefit trust (see note 15)	947,150	–
Value of company pension contributions to money purchase schemes	–	100,000
	1,153,817	211,420

Emoluments of highest paid director:

	2003	2002
	£	£
Total emoluments (excluding pension contributions):	206,667	111,420
From employee benefit trust (see note 15)	520,980	–
Value of company pension contributions to money purchase schemes	–	100,000
	727,647	211,420

The number of directors who are accruing benefits under company pension schemes was as follows:

	2003	2002
	No	No
Money purchase schemes	1	1

6 Interest payable and similar charges

	2003	2002
	£	£
Interest payable on bank borrowing	**28,666**	89,757
Finance lease interest	**169,447**	11,913
Interest on other loans	**4,671**	–
Interest on pension	**5,428**	4,320
	208,212	105,990

7 Tax on profit on ordinary activities

(a) Taxation

	2003	2002
	£	£
Current tax:		
In respect of the year:		
UK Corporation tax based on the results for the year at 30% (2002 - 30%)	**468,331**	553,977
Under provision in prior year	**93,358**	39,876
Total current tax	**561,689**	593,853
Deferred tax:		
Increase in deferred tax provision	**154,886**	122,333
Tax on profit on ordinary activities	**716,575**	716,186

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2002 - 30%).

	2003	2002
	£	£
Profit on ordinary activities before taxation	**1,838,806**	2,509,420
Profit on ordinary activities by rate of tax	**551,642**	752,826
Expenses not deductible for tax purposes	**28,186**	28,306
Capital allowances in excess of depreciation	**(111,497)**	(227,155)
Adjustments to tax charge in respect of previous periods	**93,358**	39,876
Total current tax (note 7(a))	**561,689**	593,853

8 Profit attributable to members of the parent company

The profit dealt with in the accounts of the parent company was £1,788,669 (2002 - £1,906,545).

9 Dividends

	2003 £	2002 £
Equity dividends:		
Dividend paid on ordinary shares	**400,000**	–

10 Intangible fixed assets

Group	Goodwill £
Cost	
At 1 April 2002 and 31 March 2003	219,538
Amortisation	
At 1 April 2002	18,295
Charge for the year	43,908
Impairment of goodwill	157,335
At 31 March 2003	219,538
Net book value	
At 31 March 2003	–
At 31 March 2002	201,243

11 Tangible fixed assets

Group

	Leasehold property	Plant & Machinery	Fixtures & Fittings	Motor Vehicles	Equipment	Total
	£	£	£	£	£	£
Cost						
At 1 April 2002	3,729,212	11,276,003	512,053	26,645	10,204	15,554,117
Additions	1,687,668	2,282,673	321,113	–	6,940	4,298,394
Disposals	–	(555)	–	–	–	(555)
At 31 March 2003	5,416,880	13,558,121	833,166	26,645	17,144	19,851,956
Depreciation						
At 1 April 2002	26,559	5,802,497	219,879	26,645	3,164	6,078,744
Charge for the year	434,278	1,342,399	108,091	–	2,133	1,886,901
On disposals	–	(555)	–	–	–	(555)
At 31 March 2003	460,837	7,144,341	327,970	26,645	5,297	7,965,090
Net book value						
At 31 March 2003	**4,956,043**	**6,413,780**	**505,196**	**–**	**11,847**	**11,886,866**
At 31 March 2002	3,702,653	5,473,506	292,174	–	7,040	9,475,373

Finance leases and hire purchase agreements
Included within the net book value of £11,886,866 is £5,162,109 (2002 - £3,225,941) relating to assets held under finance leases and hire purchase agreements. The depreciation charged to the accounts in the year in respect of such assets amounted to £441,404 (2002 - £1,189).

11 Tangible fixed assets (continued)

Company

	Leasehold property	Plant & Machinery	Fixtures & Fittings	Total
	£	£	£	£
Cost				
At 1 April 2002	3,686,928	11,276,003	333,384	15,296,315
Additions	1,571,196	2,323,291	321,113	4,215,600
Disposals	–	(555)	–	(555)
At 31 March 2003	5,258,124	13,598,739	654,497	19,511,360
Depreciation				
At 1 April 2002	25,945	5,802,497	213,041	6,041,483
Charge for the year	373,762	1,328,052	108,091	1,809,905
On disposals	–	(555)	–	(555)
At 31 March 2003	399,707	7,129,994	321,132	7,850,833
Net book value				
At 31 March 2003	**4,858,417**	**6,468,745**	**333,365**	**11,660,527**
At 31 March 2002	3,660,983	5,473,506	120,343	9,254,832

Finance leases and hire purchase agreements
Included within the net book value of £11,660,527 is £Nil (2002 - £3,225,941) relating to assets held under finance leases and hire purchase agreements. The depreciation charged to the accounts in the year in respect of such assets amounted to £Nil (2002 - £1,189).

12 Investments

Company	**Group companies**
	£
Cost	
At 1 April 2002 and 31 March 2003	**11**
Net book value	
At 31 March 2003	**11**
At 31 March 2002	11

12 Investments (continued)

	Country of registration	Holding	Proportion of shares held	Nature of business
Subsidiary undertakings				
All held by the company:				
Passion Café Foods Limited	England and Wales	Ordinary shares	100%	Catering

13 Stocks

	The group		The company	
	2003	2002	**2003**	2002
	£	£	**£**	£
Raw materials	**604,982**	388,493	**570,172**	364,302
Finished goods	**90,828**	21,955	**90,828**	21,955
	695,810	410,448	**661,000**	386,257

14 Debtors

	The group		The company	
	2003	2002	**2003**	2002
	£	£	**£**	£
Trade debtors	**3,415,765**	2,510,111	**3,308,003**	2,331,314
Amounts owed by group undertakings	**–**	–	**1,017,283**	400,430
Other debtors	**239,152**	938,732	**194,741**	889,534
Prepayments and accrued income	**9,354**	2,935	**–**	–
	3,664,271	3,451,778	**4,520,027**	3,621,278

15 Investments

	The group		The company	
	2003	2002	**2003**	2002
	£	£	**£**	£
Other investments	**54,050**	–	**54,050**	–

During the year the company made a contribution of £1,024,000 to the Natures Way Foods Limited Employee Benefit Trust (the Trust) which has been established to provide benefits to employees and directors of the company. Assets held by the Trust may be distributed to individuals at the unfettered discretion of the trustees, from time to time. The balance at the year end comprised unquoted investments of £51,200 and cash of £2,850.

16 Creditors: amounts falling due within one year

	The group		The company	
	2003	2002	**2003**	2002
	£	£	**£**	£
Bank loans and overdrafts	**260,272**	675,000	**250,000**	675,000
Trade creditors	**1,994,148**	1,115,503	**1,949,251**	975,066
Amounts due under finance leases and hire purchase agreements	**1,356,344**	1,020,834	**1,356,344**	1,020,834
Taxation and social security	**474,627**	739,018	**450,969**	726,463
Other creditors	**52,394**	116,114	**8,095**	–
Accruals and deferred income	**2,357,730**	2,802,843	**2,295,725**	2,669,993
	6,495,515	6,469,312	**6,310,384**	6,067,356

The following liabilities disclosed under creditors falling due within one year are secured by the company:

	The group		The company	
	2003	2002	**2003**	2002
	£	£	**£**	£
Bank loans and overdrafts	**260,272**	675,000	**–**	675,000

17 Creditors: amounts falling due after more than one year

	The group		The company	
	2003	2002	**2003**	2002
	£	£	**£**	£
Bank loans and overdrafts	**1,400,000**	1,477,240	**1,400,000**	1,475,000
Amounts due under finance leases and hire purchase agreements	**3,591,632**	2,275,731	**3,591,632**	2,275,731
	4,991,632	3,752,971	**4,991,632**	3,750,731

The bank loans are secured by a fixed and floating charge over all current and future assets of the company.

The following liabilities disclosed under creditors falling due after more than one year are secured by the company:

	The group		The company	
	2003	2002	**2003**	2002
	£	£	**£**	£
Bank loans and overdrafts	**1,400,000**	1,477,240	**–**	1,477,240

19 Commitments under finance leases and hire purchase agreements

Future commitments under finance leases and hire purchase agreements are as follows:

	The group		The company	
	2003	2002	**2003**	2002
	£	£	£	£
Amounts payable within 1 year	**1,356,344**	2,041,668	-	2,041,668
Amounts payable between 1 and 2 years	**1,062,089**	1,152,666	-	1,152,666
Amounts payable between 3 and 5 years	**2,529,543**	1,699,398	-	1,699,398
	4,947,976	4,893,732	-	4,893,732

18 Creditors - capital instruments

Creditors include finance capital which is due for repayment as follows:

	The group		The company	
	2003	2002	**2003**	2002
	£	£	£	£
In one year or less, or on demand	**250,000**	675,000	–	675,000
Between one and two years	**1,400,000**	902,240	–	902,240
Between two and five years	–	575,000	–	575,000
	1,650,000	2,152,240	–	2,152,240

	2003			2002
	£	£	£	£
Less: included in creditors: amounts falling due within one year (note 16)	**260,272**	675,000	**250,000**	675,000

20 Deferred taxation

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

	The group		The company	
	2003	2002	**2003**	2002
	£	£	£	£
Provision brought forward	**283,333**	161,000	**283,333**	161,000
Increase in provision	**154,886**	122,333	**154,886**	122,333
Provision carried forward	**438,219**	283,333	**438,219**	283,333

The deferred taxation provision relates to accelerated capital allowances.

21 Commitments under operating leases

At 31 March 2003 the group had annual commitments under non-cancellable operating leases as set out below.

The group	2003		2002	
	Land and buildings	Other items	Land and Buildings	Other items
	£	£	£	£
Operating leases which expire:				
Within 1 year	-	12,455	-	-
Within 2 to 5 years	-	55,668	-	48,694
After more than 5 years	488,201	-	460,201	-
	488,201	68,123	460,201	48,694

At 31 March 2003 the company had annual commitments under non-cancellable operating leases as set out below.

The company	2003		2002	
	Land and buildings	Other items	Land and Buildings	Other items
	£	£	£	£
Operating leases which expire:				
Within 1 year	-	12,455		
Within 2 to 5 years	-	49,718	-	48,694
After more than 5 years	405,201	-	418,701	-
	405,201	62,173	418,701	48,694

22 Related party transactions

Mr D W Langmead and Mr R A Langmead are this company's controlling related party by virtue of their joint holding of 100% of the share capital of the company.

During the year Natures Way Foods Limited sold goods totalling £2,040,655 and purchased raw materials and professional services totalling £5,310,521 from companies owned or partly owned by David Langmead, director of Natures Way Foods Limited. At the year end Natures Way Foods Limited owed these companies £228,787 and was owed £42,766 by them.

The Natures Way Foods Limited Employee Benefit Trust was established during the year (see note 15) to provide benefits to employees and directors of the company. During the year, the trustees subscribed for shares (£1,021,150) in Thornybolt No 208, an unlimited investment company, and subsequently distributed (£1,021,000) some of these shares on a conditional basis to beneficiaries.

23 Share capital

Authorised share capital:

	2003	2002
	£	£
100,000,000 Ordinary shares of £0.01 each	**1,000,000**	1,000,000

Allotted, called up and fully paid:

	2003	2002
	£	£
15,000,000 Ordinary shares of £0.01 each	**150,000**	150,000

24 Reserves

Group	Profit and loss account
	£
Balance brought forward	**3,615,176**
Retained profit for the year	**1,122,231**
Dividends	**(400,000)**
Balance carried forward	**4,337,407**

Company	Profit and loss account
	£
Balance brought forward	**1,821,942**
Retained profit for the year	**1,906,545**
Balance brought forward	**3,728,487**
Retained profit for the year	**1,788,669**
Dividends	**(400,000)**
Balance carried forward	**5,117,156**

25 Reconciliation of movements in shareholders' funds

	2003	2002
	£	£
Profit for the financial year	**1,122,231**	1,793,234
Dividends	**(400,000)**	–
	722,231	1,793,234
Opening shareholders' equity funds	**3,765,176**	1,971,942
Closing shareholders' equity funds	**4,487,407**	3,765,176

26 Notes to the statement of cash flows

Reconciliation of operating profit to net cash inflow from operating activities

	2003	2002
	£	£
Operating profit	**2,047,018**	2,555,868
Amortisation	**201,243**	18,295
Depreciation	**1,886,901**	1,222,436
Profit on disposal of fixed assets	**–**	(80,113)
Increase in stocks	**(285,362)**	(6,745)
(Increase)/Decrease in debtors	**(212,493)**	93,285
Increase in creditors	**430,249**	1,430,431
Net cash inflow from operating activities	**4,067,556**	5,233,457

Returns on investments and servicing of finance

	2003	2002
	£	£
Interest received	**–**	59,542
Interest paid	**(208,212)**	(105,990)
Net cash outflow from returns on investments and servicing of finance	**(208,212)**	(46,448)

Taxation

	2003	2002
	£	£
Taxation	**(886,517)**	(195,632)

Capital expenditure and financial investment

	2003	2002
	£	£
Payments to acquire tangible fixed assets	**(1,990,257)**	(3,181,862)
Receipts from sale of fixed assets	**–**	215,050
Payment to acquire other current asset investments	**(54,050)**	–
Net cash outflow for capital expenditure and financial investment	**(2,044,307)**	(2,966,812)

Financing

	2003	2002
	£	£
Repayment of bank loans	**(491,968)**	(1,097,760)
Capital element of finance leases and hire purchase	**(656,726)**	–
Net cash outflow from financing	**(1,148,694)**	(1,097,760)

26 Notes to the statement of cash flows (continued)

Reconciliation of net cash flow to movement in net debt

	2003		2002
	£	£	£
(Decrease)/Increase in cash in the period	**(620,174)**		944,357
Net cash outflow from bank loans	**491,968**		1,097,760
Cash outflow in respect of finance leases and hire purchase	**656,726**		–
		528,520	2,042,117
Other changes		**(2,308,137)**	(3,296,595)
Change in net debt		**(1,779,617)**	(1,254,478)
Net debt at 1 April 2002		**(4,716,855)**	(3,462,407)
Net debt at 31 March 2003		**(6,496,472)**	(4,716,855)

Analysis of changes in net debt

	At 1 Apr 2002	Cash flows	Other changes	At 31 Mar 2003
	£	£	£	£
Net cash:				
Cash in hand and at bank	**731,950**	**(620,174)**	**–**	**111,776**
Debt:				
Debt due within 1 year	**(675,000)**	**414,728**	**–**	**(260,272)**
Debt due after 1 year	**(1,477,240)**	**77,240**	**–**	**(1,400,000)**
Finance leases and hire purchase agreements	**(3,296,565)**	**656,726**	**(2,308,137)**	**(4,947,976)**
	(5,448,805)	**1,148,694**	**(2,308,137)**	**(6,608,248)**
Net debt	**(4,716,855)**	**528,520**	**(2,308,137)**	**(6,496,472)**