

Castle MacLellan Foods Limited
Annual report
for the year ended 31 December 1998

Registered no: 77607 (Scotland)



Castle MacLellan Foods Limited

Annual report for the year ended 31 December 1998

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Directors and advisers

Directors

P J Bone (Chairman)
A R Cunningham
B Jansson

Auditors

PricewaterhouseCoopers
89 Sandyford Road
Newcastle upon Tyne
NE99 1PL

Secretary and registered office

P Stewart
Riverside
Dee Walk
Kirkcudbright
DG6 4DR

Solicitors

Dickinson Dees
St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE99 1SB

Bankers

Bank of Scotland
15 St Mary Street
Kirkcudbright
DG6 4AD

**Directors' report
for the year ended 31 December 1998**

The directors present their report and the audited financial statements for the year ended 31 December 1998. Comparatives are stated for the 16 month period ended 31 December 1997.

Principal activities and business review

The principal activity of the company remains the manufacturing and sale of pâté. During the year additional freehold land was acquired, new buildings erected and new processing and packing machinery purchased, to allow for the planned further substantial growth of the company.

Significant new product development opportunities are currently being pursued.

Dividends

The directors do not recommend a dividend for the year (1997: £131,750).

Research and development

The company is committed to development activities to secure its position in the market in which it operates.

Directors and their interests

The directors of the company at 31 December 1998 are detailed on page 1.

Mr F Bergesen, who was a director of the company at 1 January 1998, resigned on 24 November 1998. Mr B Jansson was appointed as a director of the company on 13 October 1998.

None of the directors had any interest in the shares of the company or in the share capital of Kavli Holdings A/S, the ultimate parent company and its subsidiaries at 31 December 1998.

Year 2000

A Year 2000 steering group has been established to identify the areas at risk within the computer systems, manufacturing equipment, services and suppliers of the company.

Compliance testing has been performed across a number of IT operations and actions taken to secure the remaining operations.

The steering group expects to obtain assurances on compliance in good time from all critical suppliers and service providers with whom with company deals.

Given the complexity of the Year 2000 problem, it is not possible for any organisation to be certain that no Year 2000 problems will occur even if its own systems are fully compliant as there is a high degree of reliance on third parties. This could expose the company to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

The estimated cost of the work specifically required to ensure compliance is not considered to be material to the company and is being charged against profits as incurred.

Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1998. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998 following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors. A resolution to reappoint PricewaterhouseCoopers will be proposed at the annual general meeting.

By order of the board



Secretary
25 March 1999

**Report of the auditors to the members of
Castle MacLellan Foods Limited**

We have audited the financial statements on pages 5 to 16, which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 3 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. 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 is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 state of affairs of the company at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Prue Waterhouse Cooper

Chartered Accountants and Registered Auditors
Newcastle upon Tyne

26 March 1999

**Profit and loss account
for the year ended 31 December 1998**

	Notes	Year ended 31 December 1998 £	16 months ended 31 December 1997 £
Turnover		2,790,247	3,423,878
Net operating expenses	2	(2,507,823)	(3,020,774)
Exceptional operating expense	4	-	(65,000)
Operating profit		282,424	338,104
Interest receivable		726	1,257
Interest payable	5	(77,611)	(64,617)
Profit on ordinary activities before taxation		205,539	274,744
Taxation	6	(57,141)	(124,000)
Profit on ordinary activities after taxation		148,398	150,744
Dividend	7	-	(131,750)
Retained profit for the period	17	148,398	18,994

All of the operations of the company are continuing.

There are no recognised gains or losses in the year other than those included in the profits above, and therefore no separate statement of total recognised gains and losses has been presented.

**Balance sheet
at 31 December 1998**

	Notes	1998 £	1997 £
Fixed assets			
Tangible assets	8	1,411,885	842,667
Current assets			
Stocks	9	201,317	155,184
Debtors	10	636,120	595,438
Cash at bank and in hand		15,311	44,463
		852,748	795,085
Creditors: amounts falling due within one year	11	(1,036,651)	(994,768)
Net current liabilities		(183,903)	(199,683)
Total assets less current liabilities		1,227,982	642,984
Creditors: amounts falling due after more than one year	12	(559,716)	(179,434)
Provisions for liabilities and charges	13	(93,024)	(59,729)
Accruals and deferred income	14	(100,470)	(77,447)
Net assets		474,772	326,374
Capital and reserves			
Called-up share capital	16	145,000	145,000
Capital redemption reserve	17	120,000	120,000
Profit and loss account	17	209,772	61,374
Equity shareholders' funds	18	474,772	326,374

The financial statements on pages 5 to 16 were approved by the board of directors on 25 March 1999 and signed on its behalf by:

Director



**Notes to the financial statements
for the year ended 31 December 1998****1 Principal accounting policies**

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The company prepares its annual financial statements in accordance with the historical cost convention.

Cash flow statement

The company has taken advantage of the exemption in Financial Reporting Standard No 1 (revised 1996) from the requirement to produce a cash flow statement as it is a wholly owned subsidiary of Kavli Limited.

Turnover

Turnover, which excludes VAT, represents the value of goods invoiced to customers during the period, less returns.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets less their estimated residual values, on a straight line basis, over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Freehold buildings	2.5
Plant and machinery	10
Office equipment and computers	33.33
Motor vehicles	20
Fixture and fittings	20
Equipment under finance leases	over the shorter of the primary lease term or expected useful life

Freehold land is not depreciated.

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost comprises the invoiced value of goods purchased plus direct labour and attributable overheads, where applicable.

Foreign currencies

Liabilities arising in overseas currencies are converted into sterling at the exchange rate ruling on the date the goods entered the United Kingdom. Payments are converted at the actual rates incurred. The resulting exchange differences are charged or credited to the profit and loss account in the period in which they arise. At the end of the financial year foreign currency balances are translated into sterling at the rate of exchange ruling at that date.

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

Pension costs

The company operates one defined contribution pension scheme and one defined benefit pension scheme for certain of its employees. The funds of the schemes are administered by Trustees and are separate from the company.

Pension costs in respect of the defined contribution scheme are charged to the profit and loss account in the year in which they are incurred.

Pension costs in respect of the defined benefit scheme are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme. The defined benefit scheme is immaterial to the company.

Government grants

Grants that relate to specific capital expenditure are treated as deferred income which is then credited to the profit and loss account over the useful life of the related asset. Grants received in respect of specific projects are treated as deferred income and credited to the profit and loss account over the duration of the project. Other grants are credited to the profit and loss account when received.

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

2 Net operating expenses

	Year ended 31 December 1998 £	16 months ended 31 December 1997 £
Changes in stocks of work in progress and finished goods	(9,497)	(9,629)
Raw materials	1,358,265	1,665,993
Staff costs (excluding compensation for loss of office)	448,300	576,121
Amortisation of government grants	(7,824)	(8,342)
Depreciation charge for the year		
Tangible owned fixed assets	64,253	52,168
Tangible leased assets	14,053	10,973
Other operating charges	584,124	666,476
Development expenditure	35,557	33,802
Hire of plant and machinery - operating leases	13,142	19,836
Auditors' remuneration		
Audit	5,000	5,000
Other services	2,450	-
Loss on sale of tangible fixed assets	-	8,376
	<u>2,507,823</u>	<u>3,020,774</u>

3 Employee information

The average monthly number of persons (including executive directors) employed by the company during the year was:

	Year ended 31 December 1998	16 months ended 31 December 1997
Production	26	23
Sales	2	2
Administration	12	11
Total	<u>40</u>	<u>36</u>

Staff costs for the above are as follows:

	£	£
Wages and salaries	413,364	589,714
Social security costs	32,632	41,843
Other pension costs (see note 15)	2,304	9,564
	<u>448,300</u>	<u>641,121</u>

4 Directors' emoluments

	Year ended 31 December 1998 £	16 months ended 31 December 1997 £
Aggregate emoluments (including benefits in kind)	13,000	40,540
Compensation for loss of office	-	65,000
	<u>13,000</u>	<u>105,540</u>

The compensation for loss of office paid to the directors on the acquisition of the company on 25 June 1997 by Kavli Limited has been disclosed as an exceptional operating expense in the profit and loss account.

5 Interest payable

	Year ended 31 December 1998 £	16 months ended 31 December 1997 £
Interest payable on overdrafts	41,248	56,483
Interest payable on bank loans	19,823	152
Interest payable on group loans	10,143	-
Hire purchase interest and finance leasing charges	6,397	7,982
	<u>77,611</u>	<u>64,617</u>

6 Taxation

	Year ended 31 December 1998 £	16 months ended 31 December 1997 £
United Kingdom corporation tax at 31% (1997: 31%):		
Current	30,000	97,747
Deferred	35,222	3,062
(Over)/underprovision in respect of prior years:		
Current	(6,154)	-
Deferred	-	23,191
Adjustment to deferred tax balances due to changes in tax rates	(1,927)	-
	<u>57,141</u>	<u>124,000</u>

7 Dividend

	Year ended 31 December 1998 £	16 months ended 31 December 1997 £
Ordinary: Interim paid of 90.86p per share	-	131,750

8 Tangible fixed assets

	Freehold land and buildings £	Plant and machinery £	Motor vehicles £	Total £
Cost				
At 1 January 1998	580,823	470,317	28,658	1,079,798
Additions	189,668	457,856	-	647,524
At 31 December 1998	770,491	928,173	28,658	1,727,322
Depreciation				
At 1 January 1998	13,696	211,760	11,675	237,131
Charge for the year	14,746	59,314	4,246	78,306
At 31 December 1998	28,442	271,074	15,921	315,437
Net book value				
At 31 December 1998	742,049	657,099	12,737	1,411,885
Net book value				
At 31 December 1997	567,127	258,557	16,983	842,667

Included in the total net book value above was £112,088 (1997: £73,862) in respect of assets held under finance leases or hire purchase contracts.

In the opinion of the directors the book value of the land and buildings above is not significantly different to the market value.

9 Stocks

	1998 £	1997 £
Raw materials and consumables	157,684	121,048
Work in progress	2,770	2,841
Finished goods	40,863	31,295
	<u>201,317</u>	<u>155,184</u>

10 Debtors

	1998 £	1997 £
Trade debtors	558,936	547,810
Other debtors	35,711	22,799
Prepayments	41,473	24,829
	<u>636,120</u>	<u>595,438</u>

11 Creditors: amounts falling due within one year

	1998 £	1997 £
Bank loan and overdrafts	425,704	648,247
Trade creditors	494,035	201,169
Obligations under finance leases and hire purchase contracts	26,806	19,240
Amounts owed to group undertakings	11,579	9,000
Corporation tax	30,000	64,778
Other taxes and social security	14,207	10,353
Other creditors	34,320	41,981
	<u>1,036,651</u>	<u>994,768</u>

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

12 Creditors: amounts falling due after more than one year

	1998 £	1997 £
Bank loans	152,681	174,121
Obligations under finance leases and hire purchase contracts	47,035	4,863
Amounts falling due to group undertakings	360,000	-
Other creditors	-	450
	<u>559,716</u>	<u>179,434</u>

The group loan is repayable in more than one year to the company's immediate parent company, Kavli Limited. The maturity of the bank loans and obligations under finance leases and hire purchase contracts is given below:

	Bank loans		Obligations under finance leases and hire purchase contracts	
	1998 £	1997 £	1998 £	1997 £
Repayable as follows:				
In one year or less	23,101	21,117	26,806	19,240
Between one and two years	25,457	23,270	23,200	4,863
Between two and five years	93,033	85,043	23,835	-
In five years or more	34,191	65,808	-	-
	<u>175,782</u>	<u>195,238</u>	<u>73,841</u>	<u>24,103</u>

13 Provisions for liabilities and charges

Deferred taxation

	£
At 1 January 1998	59,729
Profit and loss account charge for the year	33,295
At 31 December 1998	<u>93,024</u>

Deferred taxation provided in the financial statements and the amount unprovided of the total potential liability, are as follows:

	Amount provided		Amount unprovided	
	1998 £	1997 £	1998 £	1997 £
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	113,912	63,735	-	-
Short term timing differences	(20,888)	(4,006)	-	-
	<u>93,024</u>	<u>59,729</u>	<u>-</u>	<u>-</u>

14 Accruals and deferred income

	£
Government grants	
At 1 January 1998	77,447
Amortisation in year	(7,824)
New grants received	30,847
At 31 December 1998	100,470

The new grants received in the year relate to a Fisheries Support Grant received from the Scottish Office for the extension of the company premises. The remaining government grants relate to the unamortised portion of earlier grants received from the Department of Trade and Industry and the Scottish Office.

15 Pension and similar obligations

The company operates two contributory pension schemes, a funded defined contribution scheme and a funded defined benefit scheme. Contributions charged in the profit and loss account in the year were £2,304 (1997: £9,564).

At 31 December 1998 an accrual for £921 (1997: £923) was included in the balance sheet in respect of pension payments.

16 Called-up share capital

	1998 £	1997 £
Authorised		
370,000 ordinary shares of £1 each	370,000	370,000
Allotted, called-up and fully paid		
145,000 ordinary shares of £1 each	145,000	145,000

17 Reserves

	Capital redemption reserve £	Profit and loss account £
Balance at 1 January 1998	120,000	61,374
Retained profit for the year	-	148,398
Balance at 31 December 1998	120,000	209,772

The capital redemption reserve represents the nominal value of preference shares redeemed.

18 Reconciliation of movements in shareholders' funds

	1998 £	1997 £
Profit for the period	148,398	18,994
Opening equity shareholders' funds	326,374	307,380
Closing equity shareholders' funds	474,772	326,374

19 Leasing commitments

At 31 December 1998 the company had annual commitments under non-cancellable operating leases, none of which related to land and buildings, as detailed below:

	1998 £	1997 £
Expiring within two to five years	4,860	5,460

20 Capital commitments

	1998 £	1997 £
Capital expenditure that has been contracted for but has not been provided in the financial statements	-	65,000
	<u> </u>	<u> </u>

21 Related party transactions

The company has taken advantage of the exemption under FRS 8 'Related Party Disclosures' not to disclose details of intra-group transactions. There are no other transactions which fall to be disclosed under the terms of FRS 8.

22 Ultimate and immediate parent companies

The company is a wholly owned subsidiary of Kavli Limited, a company registered in England. The ultimate parent company is Kavli Holdings A/S, a company incorporated in Norway.

Copies of the ultimate parent company's financial statements can be obtained from:

Kavli Holdings A/S
C. Sundtsgt. 37
N-5004 Bergen
Norway