

Castle MacLellan Foods Limited
Annual report
for the year ended 31 December 1999

Registered no: 77607 (Scotland)

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Castle MacLellan Foods Limited

Annual report for the year ended 31 December 1999

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Directors and advisers

Directors

P J Bone (Chairman)
A R Cunningham
B Jansson
L Stråtveit

Auditors

PricewaterhouseCoopers
89 Sandyford Road
Newcastle upon Tyne
NE99 1PL

Secretary and registered office

L Hayes
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 1999**

The directors present their report and the audited financial statements for the year ended 31 December 1999.

Principal activities and business review

The principal activity of the company remains the manufacturing and sale of pâté.

The capital investment of recent years enabled significant growth to be achieved during the year. Major new product development opportunities will continue to be pursued in 2000.

Dividends

The directors do not recommend a dividend for the year (1998: £Nil).

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 1999 are detailed on page 1. With the exception of Mr L Stråtveit, who was appointed a director of the company on 25 March 1999, all directors held office for the whole of the year ended 31 December 1999.

None of the directors had any interest in the shares of the company or in the share capital of Kavli Holding A/S, the ultimate parent company and its subsidiaries at 31 December 1999.

Year 2000

A Year 2000 steering group was established in 1998 to identify the areas at risk within the computer systems, manufacturing equipment, services and suppliers of the company.

Compliance testing was performed across all IT operations and action was taken to remedy any non-compliant systems.

The steering group also sought assurances on Year 2000 compliance from all critical suppliers and service providers. As a result of the preparations undertaken, the company did not experience any Year 2000 problems.

Given the complexity of the Year 2000 problem and the potential risks associated with certain future dates, the company is continuing its preparations and taking appropriate action to secure all affected operations.

The cost of the work specifically required to ensure compliance is not considered to be material to the company and was 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 1999. 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

A resolution to reappoint PricewaterhouseCoopers will be proposed at the annual general meeting.

By order of the board

L Hayes



Secretary
27 March 2000

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

We have audited the financial statements on pages 5 to 15, 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. As described on page 3, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom 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 United Kingdom 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 audit 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 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers



Chartered Accountants and Registered Auditors
Newcastle upon Tyne
27 March 2000

**Profit and loss account
for the year ended 31 December 1999**

	Notes	1999 £	1998 £
Turnover		3,264,000	2,790,247
Net operating expenses	2	(2,899,253)	(2,507,823)
Operating profit		364,747	282,424
Interest receivable		249	726
Interest payable	5	(56,297)	(77,611)
Profit on ordinary activities before taxation		308,699	205,539
Taxation	6	(91,634)	(57,141)
Retained profit for the year	16	217,065	148,398

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 1999**

	Notes	1999 £	1998 £
Fixed assets			
Tangible assets	7	<u>1,397,798</u>	<u>1,411,885</u>
Current assets			
Stocks	8	262,551	201,317
Debtors	9	965,564	636,120
Cash at bank and in hand		21,135	15,311
		<u>1,249,250</u>	<u>852,748</u>
Creditors: amounts falling due within one year	10	<u>(928,854)</u>	<u>(1,036,651)</u>
Net current assets/(liabilities)		<u>320,396</u>	<u>(183,903)</u>
Total assets less current liabilities		<u>1,718,194</u>	<u>1,227,982</u>
Creditors: amounts falling due after more than one year	11	(792,442)	(559,716)
Provisions for liabilities and charges	12	(130,997)	(93,024)
Accruals and deferred income	13	(102,918)	(100,470)
Net assets		<u>691,837</u>	<u>474,772</u>
Capital and reserves			
Called-up share capital	15	145,000	145,000
Capital redemption reserve	16	120,000	120,000
Profit and loss account	16	426,837	209,772
Equity shareholders' funds	17	<u>691,837</u>	<u>474,772</u>

The financial statements on pages 5 to 15 were approved by the board of directors on 27 March 2000 and signed on its behalf by:

P J Bone
Chairman



**Notes to the financial statements
for the year ended 31 December 1999****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

	1999 £	1998 £
Changes in stocks of work in progress and finished goods	(10,774)	(9,497)
Raw materials	1,540,703	1,358,265
Staff costs (note 3)	518,661	448,300
Amortisation of government grants	(79,102)	(7,824)
Depreciation charge for the year		
Tangible owned fixed assets	92,766	64,253
Tangible leased assets	11,868	14,053
Other operating charges	801,878	584,124
Development expenditure	6,048	35,557
Hire of plant and machinery - operating leases	7,394	13,142
Auditors' remuneration		
Audit	5,000	5,000
Other services	750	2,450
Loss on sale of tangible fixed assets	4,061	-
	<u>2,899,253</u>	<u>2,507,823</u>

3 Employee information

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

	1999 Number	1998 Number
Production	29	26
Sales	2	2
Administration	11	12
Total	<u>42</u>	<u>40</u>

Staff costs for the above are as follows:

	£	£
Wages and salaries	479,682	413,364
Social security costs	35,867	32,632
Other pension costs (see note 14)	3,112	2,304
	<u>518,661</u>	<u>448,300</u>

4 Directors' emoluments

	1999 £	1998 £
Aggregate emoluments (including benefits in kind)	<u>6,500</u>	<u>13,000</u>

5 Interest payable

	1999 £	1998 £
Interest payable on overdrafts	4,629	41,248
Interest payable on bank loans	4,830	19,823
Interest payable on group loans	42,172	10,143
Hire purchase interest and finance leasing charges	4,666	6,397
	<u>56,297</u>	<u>77,611</u>

6 Taxation

	1999 £	1998 £
United Kingdom corporation tax at 30.25% (1998: 31%):		
Current	57,558	30,000
Deferred	37,973	35,222
Over provision in respect of prior years:		
Current	(3,897)	(6,154)
Adjustment to deferred tax balances due to changes in tax rates	-	(1,927)
	<u>91,634</u>	<u>57,141</u>

7 Tangible fixed assets

	Freehold land and buildings £	Plant and machinery £	Motor Vehicles £	Total £
Cost				
At 1 January 1999	770,491	928,173	28,658	1,727,322
Additions	21,384	78,374	-	99,758
Disposals	-	(24,297)	(19,079)	(43,376)
At 31 December 1999	791,875	982,250	9,579	1,783,704
Depreciation				
At 1 January 1999	28,442	271,074	15,921	315,437
Charge for the year	18,642	83,868	2,124	104,634
Eliminated in respect of disposals	-	(22,506)	(11,659)	(34,165)
At 31 December 1999	47,084	332,436	6,386	385,906
Net book value				
At 31 December 1999	744,791	649,814	3,193	1,397,798
Net book value				
At 31 December 1998	742,049	657,099	12,737	1,411,885

Included in the total net book value above was £90,321 (1998: £112,088) 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.

8 Stocks

	1999 £	1998 £
Raw materials and consumables	208,144	157,684
Work in progress	2,815	2,770
Finished goods	51,592	40,863
	<u>262,551</u>	<u>201,317</u>

9 Debtors

	1999 £	1998 £
Trade debtors	825,678	558,936
Amounts owed by group undertakings	880	-
Other debtors	48,211	35,711
Prepayments	90,795	41,473
	<u>965,564</u>	<u>636,120</u>

10 Creditors: amounts falling due within one year

	1999 £	1998 £
Bank loan and overdrafts	-	425,704
Trade creditors	655,036	494,035
Obligations under finance leases and hire purchase contracts	23,166	26,806
Amounts owed to group undertakings	167,297	11,579
Corporation tax	-	30,000
Other taxes and social security	21,861	14,207
Accruals	61,494	34,320
	<u>928,854</u>	<u>1,036,651</u>

11 Creditors: amounts falling due after more than one year

	1999 £	1998 £
Bank loans	-	152,681
Obligations under finance leases and hire purchase contracts	23,126	47,035
Amounts owed to group undertakings	769,316	360,000
	<u>792,442</u>	<u>559,716</u>

The group loan is repayable in quarterly instalments of £15,000 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	
	1999 £	1998 £	1999 £	1998 £
Repayable as follows:				
In one year or less	-	23,101	23,166	26,806
Between one and two years	-	25,457	21,312	23,200
Between two and five years	-	93,033	1,814	23,835
In five years or more	-	34,191	-	-
	<u>-</u>	<u>175,782</u>	<u>46,292</u>	<u>73,841</u>

12 Provisions for liabilities and charges

Deferred taxation

	£
At 1 January 1999	93,024
Profit and loss account charge for the year	37,973
At 31 December 1999	<u>130,997</u>

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

	Amount provided		Amount unprovided	
	1999 £	1998 £	1999 £	1998 £
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	130,997	113,912	-	-
Short term timing differences	-	(20,888)	-	-
	<u>130,997</u>	<u>93,024</u>	<u>-</u>	<u>-</u>

13 Accruals and deferred income

	£
Government grants	
At 1 January 1999	100,470
Amortisation in year	(79,102)
New grants received	81,550
At 31 December 1999	102,918

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. All earlier grants received from the Department of Trade and Industry and the Scottish Office have been fully amortised in the year.

14 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 £3,112 (1998: £2,304).

At 31 December 1999 an accrual for £312 (1998: £921) was included in the balance sheet in respect of pension payments.

15 Called-up share capital

	1999 £	1998 £
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

16 Reserves

	Capital redemption reserve £	Profit and loss account £
At 1 January 1999	120,000	209,772
Retained profit for the year	-	217,065
At 31 December 1999	120,000	426,837

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

17 Reconciliation of movements in equity shareholders' funds

	1999 £	1998 £
Opening equity shareholders' funds	474,772	326,374
Profit for the year	217,065	148,398
Closing equity shareholders' funds	<u>691,837</u>	<u>474,772</u>

18 Financial commitments

At 31 December 1999 the company had annual commitments under non-cancellable operating leases, none of which related to land and buildings, as detailed below:

	1999 £	1998 £
Expiring within two to five years	<u>12,597</u>	<u>4,860</u>

19 Capital commitments

	1999 £	1998 £
Capital expenditure that has been contracted for but has not been provided in the financial statements	<u>6,105</u>	<u>-</u>

20 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.

21 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 Holding A/S, a company incorporated in Norway.

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

Kavli Holding A/S
Postboks 7360
5020 Bergen
Norway

The ultimate controlling party of Kavli Holding A/S is O Kavli og Knut Kavli's Almennyttige Fond established in Norway.