

CASTLE MacLELLAN FOODS LIMITED

Report and Financial Statements

31 December 2001



**Deloitte & Touche
Gainsborough House
34-40 Grey Street
Newcastle upon Tyne
NE1 6AE**

REPORT AND FINANCIAL STATEMENTS 2001

CONTENTS

Page

Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	3
Independent auditors' report	4
Profit and loss account	5
Balance sheet	6
Notes to the accounts	7

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

L Stråtveit (Chairman)
H W Roberts

SECRETARY

L Hayes

REGISTERED OFFICE

Riverside
Dee Walk
Kirkcudbright
DG6 4DR

BANKERS

Bank of Scotland
15 St Mary Street
Kirkcudbright
DG6 4AD

Den Norske Bank ASA
20 St Dunstan's Hill
London
EC3R 8HY

SOLICITORS

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

AUDITORS

Deloitte & Touche
Chartered Accountants
Gainsborough House
34-40 Grey Street
Newcastle upon Tyne
NE1 6AE

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2001.

PRINCIPAL ACTIVITY

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

REVIEW OF BUSINESS AND FUTURE PROSPECTS

The capital investment of recent years enabled significant growth to be achieved during the year. Further investment is planned for 2002 and new product development opportunities will continue to be pursued.

RESULTS AND DIVIDENDS

The results for the year are set out on page 5. The directors recommend the payment of a dividend for the year of £527,813 (2000 - £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 who held office during the year are given below:

A R Cunningham (resigned 26 September 2001)

R H Dickinson (resigned 26 September 2001)

H W Roberts

L Stråtveit (Chairman)

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 1 January 2001 or 31 December 2001.

AUDITORS

Deloitte & Touche were appointed as auditors to the company during the period. Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board


Director

8 March 2002

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors
and signed on behalf of the Board



Director

8 March 2002



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CASTLE MacLELLAN FOODS LIMITED

We have audited the financial statements of Castle MacLellan Foods Limited for the year ended 31 December 2001 which comprise the profit and loss account, the balance sheet and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and 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 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 information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year 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 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 circumstances of the company, 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 the affairs of the company as at 31 December 2001 and of the profit of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants and Registered Auditors

11 March 2002

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2001

	Note	2001 £	2000 £
TURNOVER		4,189,292	3,593,445
Net operating expenses	2	(3,915,006)	(3,401,221)
Operating profit		274,286	192,224
Interest receivable and similar income		2,297	1,814
Interest payable and similar charges	4	(70,498)	(50,665)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		206,085	143,373
Tax on profit on ordinary activities	5	(64,489)	(42,397)
PROFIT FOR THE FINANCIAL YEAR		141,596	100,976
DIVIDENDS	6	(527,813)	-
RETAINED (LOSS)/PROFIT	17	(386,217)	100,976

All activities derive from continuing activities.

There are no recognised gains and losses other than the profit for the current financial year and preceding financial year and therefore no separate statement of total recognised gains and losses has been presented.

BALANCE SHEET**31 December 2001**

	Note	2001 £	2001 £	2000 £	2000 £
FIXED ASSETS					
Tangible assets	7		1,620,995		1,440,510
CURRENT ASSETS					
Stocks	8	445,087		286,585	
Debtors	9	1,147,735		836,470	
Cash at bank and in hand		-		1,243	
		<u>1,592,822</u>		<u>1,124,298</u>	
CREDITORS: amounts falling due within one year	10	<u>(987,753)</u>		<u>(827,129)</u>	
NET CURRENT ASSETS			<u>605,069</u>		<u>297,169</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			2,226,064		1,737,679
CREDITORS: amounts falling due after more than one year	11		(1,572,610)		(717,317)
PROVISIONS FOR LIABILITIES AND CHARGES	12		(159,038)		(132,189)
ACCRUALS AND DEFERRED INCOME	13		<u>(87,820)</u>		<u>(95,360)</u>
NET ASSETS			<u>406,596</u>		<u>792,813</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		141,596		527,813
EQUITY SHAREHOLDERS' FUNDS	17		<u>406,596</u>		<u>792,813</u>

These financial statements were approved by the Board of Directors on 8 March 2002

Signed on behalf of the Board of Directors

Leif Stråtkvist

Director

NOTES TO THE ACCOUNTS
Year ended 31 December 2001**1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under 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 rates used for this purposes are:

	%
Freehold buildings	2.5
Plant and machinery	10 – 33.33
Motor vehicles	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 exchange

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.

NOTES TO THE ACCOUNTS
Year ended 31 December 2001**1. ACCOUNTING POLICIES (continued)****Pension costs**

The company operates two defined contribution pension schemes 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 these schemes are charged to the profit and loss account in the year in which they are incurred.

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

	2001	2000
	£	£
Changes in stocks of work in progress and finished goods	(9,796)	(1,464)
Raw materials	2,013,171	1,816,972
Staff costs (note 3)	694,687	580,181
Amortisation of government grants	(7,540)	(7,558)
Depreciation charge for the year:		
Tangible owned fixed assets	116,801	107,109
Tangible leased assets	8,242	11,021
Other operating charges	1,010,536	854,777
Development expenditure	66,007	18,309
Hire of plant and machinery – operating leases	14,848	12,618
Auditors' remuneration:		
Audit	3,000	5,800
Other services	5,895	3,360
(Profit)/loss on sale of tangible fixed assets	(845)	96
	<u>3,915,006</u>	<u>3,401,221</u>

NOTES TO THE ACCOUNTS**Year ended 31 December 2001****3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES**

	2001 £	2000 £
Directors emoluments		
Aggregate emoluments (including benefits in kind)	-	2,167
The average number of people employed by the company (including directors) during the year was:	No.	No.
Production	34	30
Sales	2	2
Administration	6	8
	42	40
Staff costs during the year:	£	£
Wages and salaries	628,691	526,596
Social security costs	54,145	45,370
Other pension costs (see note 14)	11,851	8,215
	694,687	580,181

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2001 £	2000 £
Interest payable on overdrafts	1,359	1,207
Interest payable on group loans	65,641	45,568
Hire purchase interest and finance leasing charges	3,498	3,890
	70,498	50,665

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2001 £	2000 £
United Kingdom corporation tax at 30% (2000 – 30%):		
Deferred	20,543	2,757
Over provision in respect of prior years:		
Group relief	(5,934)	-
Deferred	6,306	(1,565)
Amount payable to parent company in respect of tax saved by group relief	43,574	41,205
	64,489	42,397

NOTES TO THE ACCOUNTS

Year ended 31 December 2001

6. DIVIDENDS

	2001 £	2000 £
Ordinary:		
Final proposed dividend of 364.009p per share (2000 – nil)	527,813	-

7. TANGIBLE FIXED ASSETS

	Freehold land and buildings £	Plant and machinery £	Motor vehicles £	Total £
Cost				
At 1 January 2001	876,875	1,046,752	9,579	1,933,206
Additions	-	307,383	-	307,383
Disposals	(200)	(19,132)	(9,579)	(28,911)
At 31 December 2001	876,675	1,335,003	-	2,211,678
Accumulated depreciation				
At 1 January 2001	66,612	416,505	9,579	492,696
Charge for the year	20,768	104,275	-	125,043
Disposals	-	(17,477)	(9,579)	(27,056)
At 31 December 2001	87,380	503,303	-	590,683
Net book value				
At 31 December 2001	789,295	831,700	-	1,620,995
At 31 December 2000	810,263	630,247	-	1,440,510

Included in the total net book value above was £55,637 (2000 - £63,879) 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

	2001 £	2000 £
Raw materials and consumables	224,298	132,689
Packaging	155,122	98,025
Work in progress	6,118	4,819
Finished goods and goods for resale	59,549	51,052
	445,087	286,585

NOTES TO THE ACCOUNTS
Year ended 31 December 2001**9. DEBTORS**

	2001 £	2000 £
Trade debtors	1,020,068	714,412
Amounts owed by group undertakings	-	1,230
Other debtors	30,117	28,019
Prepayments	97,550	92,809
	<u>1,147,735</u>	<u>836,470</u>

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £	2000 £
Bank loans and overdraft	23,518	-
Trade creditors	658,847	563,237
Obligations under finance leases and hire purchase contracts	1,776	21,331
Amounts owed to group undertakings	162,025	152,427
Corporation tax	350	350
Other taxes and social security	28,137	22,628
Accruals	113,100	67,156
	<u>987,753</u>	<u>827,129</u>

11. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2001 £	2000 £
Obligations under finance leases and hire purchase contracts	-	1,776
Amounts owed to group undertakings	1,572,610	715,541
	<u>1,572,610</u>	<u>717,317</u>

The maturity of obligations under finance leases and hire purchase contracts is given below:

	2001 £	2000 £
Repayable as follows:		
In one year or less	1,776	21,331
Between one and two years	-	1,776
	<u>1,776</u>	<u>23,107</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2001

12. PROVISIONS FOR LIABILITIES AND CHARGES

	£			
Deferred taxation				
At 1 January 2001				132,189
Profit and loss account charge for the year				26,849
At 31 December 2001				<u>159,038</u>
	Provided	Not	Provided	Not
	2001	provided	2000	provided
	£	2001	£	2000
		£		£
Tax effect on timing differences because of:				
Excess of tax allowances over depreciation	160,097	-	137,682	-
Short term timing differences	(1,059)	-	(5,493)	-
	<u>159,038</u>	<u>-</u>	<u>132,189</u>	<u>-</u>

13. ACCRUALS AND DEFERRED INCOME

	£
Government grants	
At 1 January 2001	95,360
Amortisation in year	(7,540)
At 31 December 2001	<u>87,820</u>

14. PENSION AND SIMILAR OBLIGATIONS

The company operates two funded defined contribution pension schemes. Contributions charged in the profit and loss account in the year totalled £11,851 (2000 - £8,215).

At 31 December 2001 an accrual for £nil (2000 - £780) was included in the balance sheet in respect of pension payments.

15. CALLED UP SHARE CAPITAL

	2001	2000
	£	£
Authorised:		
370,000 ordinary shares of £1 each	<u>370,000</u>	<u>370,000</u>
Called up, allotted and fully paid:		
145,000 ordinary shares of £1 each	<u>145,000</u>	<u>145,000</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2001**16. RESERVES**

	Capital redemption reserve £	Profit and loss account £
At 1 January 2001	120,000	527,813
Retained loss for the year	-	(386,217)
At 31 December 2001	120,000	141,596

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

17. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	2001 £	2000 £
Opening equity shareholders' funds	792,813	691,837
(Loss)/profit for the year	(386,217)	100,976
Closing equity shareholders' funds	406,596	792,813

18. FINANCIAL COMMITMENTS

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

	2001 £	2000 £
Expiring in one year	3,568	-
Expiring within two to five years	11,705	12,648
	15,273	12,648

19. 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 except for those which are included in the directors' report.

20. 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.