

CASTLE MacLELLAN FOODS LIMITED

Report and Financial Statements

31 December 2002

**Deloitte & Touche
Newcastle upon Tyne**



REPORT AND FINANCIAL STATEMENTS 2002

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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
Newcastle upon Tyne

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

PRINCIPAL ACTIVITY

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

REVIEW OF BUSINESS AND FUTURE PROSPECTS

The capital investment made during the year enabled significant sales growth to be achieved. The strategy for 2003 is to consolidate our position to improve the profitability of the company.

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 £54,665 (2001 - £527,813).

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:

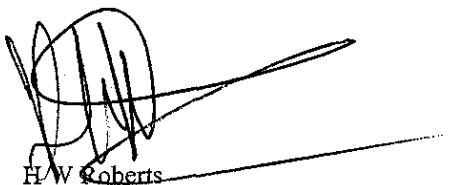
L Stråtveit	(Chairman)
H W Roberts	(Managing Director)

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 2002 or 31 December 2002.

AUDITORS

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



H/W Roberts

Director

9 April 2003

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



L Stråtveit

Director

9 April 2003

**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 2002 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

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 the 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 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 2002 and of the profit of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche

Chartered Accountants and Registered Auditors

Newcastle upon Tyne

9 April 2003

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2002

	Note	2002 £	2001 £
TURNOVER		5,300,155	4,189,292
Net operating expenses	2	(5,049,981)	(3,915,006)
Operating profit		250,174	274,286
Interest receivable and similar income		1,110	2,297
Interest payable and similar charges	4	(76,743)	(70,498)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		174,541	206,085
Tax on profit on ordinary activities	5	(37,862)	(64,489)
PROFIT FOR THE FINANCIAL YEAR		136,679	141,596
DIVIDENDS	6	(54,665)	(527,813)
RETAINED PROFIT/(LOSS)	16	82,014	(386,217)

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 2002

	Note	2002 £	2002 £	2001 £	2001 £
FIXED ASSETS					
Tangible assets	7		2,153,961		1,620,995
CURRENT ASSETS					
Stocks	8	518,247		445,087	
Debtors	9	1,271,879		1,147,735	
Cash at bank and in hand		3,643		-	
		<u>1,793,769</u>		<u>1,592,822</u>	
CREDITORS: amounts falling due within one year	10	<u>(1,532,451)</u>		<u>(987,753)</u>	
NET CURRENT ASSETS			<u>261,318</u>		<u>605,069</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			2,415,279		2,226,064
CREDITORS: amounts falling due after more than one year	11		(1,611,000)		(1,572,610)
PROVISIONS FOR LIABILITIES AND CHARGES	12		(186,404)		(159,038)
ACCRUALS AND DEFERRED INCOME	13		<u>(129,265)</u>		<u>(87,820)</u>
NET ASSETS			<u>488,610</u>		<u>406,596</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		223,610		141,596
EQUITY SHAREHOLDERS' FUNDS	17		<u>488,610</u>		<u>406,596</u>

These financial statements were approved by the Board of Directors on 9 April 2003.

Signed on behalf of the Board of Directors

L Stråtveit

L Stråtveit
Director

H W Roberts

H W Roberts
Director

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

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

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

The company has adopted FRS 19 *Deferred taxation*. There were no adjustments to the profit and loss account and balance sheet of the prior period as a result.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax or a right to pay less tax at a future date at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those which are included in the financial statements. Deferred taxation is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset. Deferred tax assets are recognised to the extent that it is regarded as more than likely than not they will be recovered. Deferred tax assets and liabilities are not discounted.

NOTES TO THE ACCOUNTS
Year ended 31 December 2002**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

	2002 £	2001 £
Changes in stocks of work in progress and finished goods	(39,763)	(9,796)
Raw materials	2,721,744	2,013,171
Staff costs (note 3)	986,627	694,687
Amortisation of government grants	(11,143)	(7,540)
Depreciation charge for the year:		
Tangible owned fixed assets	158,060	116,801
Tangible leased assets	8,242	8,242
Other operating charges	1,102,222	1,010,536
Development expenditure	99,373	66,007
Hire of plant and machinery – operating leases	17,851	14,848
Auditors' remuneration:		
Audit	3,000	3,000
Other services	3,848	5,895
Profit on sale of tangible fixed assets	(80)	(845)
	<u>5,049,981</u>	<u>3,915,006</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2002 £	2001 £
Directors emoluments		
Aggregate emoluments (including benefits in kind)	-	-
The average number of people employed by the company (including directors) during the year was:	No.	No.
Production	53	34
Sales	4	2
Administration	7	6
	64	42
Staff costs during the year:	£	£
Wages and salaries	897,084	628,691
Social security costs	71,522	54,145
Other pension costs (see note 14)	18,021	11,851
	986,627	694,687

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £	2001 £
Interest payable on overdrafts	2,128	1,359
Interest payable on group loans	74,322	65,641
Hire purchase interest and finance leasing charges	293	3,498
	76,743	70,498

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2002 £	2001 £
United Kingdom corporation tax at 30% (2001 – 30%):		
Current	10,773	-
Deferred	26,981	20,543
Over provision in respect of prior years:		
Group relief	(277)	(5,934)
Deferred	385	6,306
Group relief	-	43,574
	37,862	64,489

NOTES TO THE ACCOUNTS**Year ended 31 December 2002****5. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)**

The tax assessed is lower than that resulting from applying the standard rate of corporation tax in the UK of 30% (2001 – 30%). The differences are explained below:

	2002 £	2001 £
Profit before taxation	174,541	206,085
Tax at 30% thereon	52,362	61,826
Expenses not deductible for tax purposes	3,128	2,291
Capital allowances in excess of depreciation	(43,350)	(21,368)
Movement in short term timing differences	593	825
Marginal relief from standard rate of corporation tax	(1,960)	-
Prior period adjustments	(277)	(5,934)
Current tax charge for the period	10,496	37,640

6. DIVIDENDS

	2002 £	2001 £
Ordinary: Final proposed dividend of 37.7p per share (2001 – 364.009p)	54,665	527,813

7. TANGIBLE FIXED ASSETS

	Freehold land and buildings £	Plant and machinery £	Total £
Cost			
At 1 January 2002	876,675	1,335,003	2,211,678
Additions	-	699,268	699,268
Disposals	-	(3,514)	(3,514)
At 31 December 2002	876,675	2,030,757	2,907,432
Accumulated depreciation			
At 1 January 2002	87,380	503,303	590,683
Charge for the year	20,751	145,551	166,302
Disposals	-	(3,514)	(3,514)
At 31 December 2002	108,131	645,340	753,471
Net book value			
At 31 December 2002	768,544	1,385,417	2,153,961
At 31 December 2001	789,295	831,700	1,620,995

Included in the total net book value above was £47,395 (2001 - £55,637) 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.

NOTES TO THE ACCOUNTS
Year ended 31 December 2002**8. STOCKS**

	2002 £	2001 £
Raw materials and consumables	222,920	224,298
Packaging	189,897	155,122
Work in progress	2,815	6,118
Finished goods and goods for resale	102,615	59,549
	<u>518,247</u>	<u>445,087</u>

9. DEBTORS

	2002 £	2001 £
Trade debtors	1,140,203	1,020,068
Amounts owed by group undertakings	955	-
Other debtors	53,087	30,117
Prepayments	77,634	97,550
	<u>1,271,879</u>	<u>1,147,735</u>

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002 £	2001 £
Bank loans and overdraft	68,360	23,518
Trade creditors	933,485	658,847
Obligations under finance leases and hire purchase contracts	-	1,776
Amounts owed to group undertakings	340,552	162,025
Corporation tax	11,123	350
Other taxes and social security	34,152	28,137
Accruals	90,114	113,100
Dividend (note 6)	54,665	-
	<u>1,532,451</u>	<u>987,753</u>

NOTES TO THE ACCOUNTS**Year ended 31 December 2002****11. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	2002 £	2001 £
Amounts owed to group undertakings	1,611,000	1,572,610

Amounts due to group undertakings include an intra group loan of £1,701,000 (2001 - £nil). This loan is unsecured and due for repayment by 30 September 2014. The loan attracts interest charges at a margin of 1.25% above LIBOR. The effective rate as at 31 December 2002 was 5.25%. The maturity of this loan is given below:

	2002 £	2001 £
Repayable as follows:		
Within one year	90,000	-
In more than one year but not more than two years	90,000	-
In more than two years but not more than five years	360,000	-
After more than five years	1,161,000	-
	<u>1,701,000</u>	<u>-</u>

12. PROVISIONS FOR LIABILITIES AND CHARGES

	£
Deferred taxation	
At 1 January 2002	159,038
Profit and loss account charge for the year	27,366
At 31 December 2002	<u>186,404</u>

	2002 £	2001 £
Analysis of deferred tax balance		
Capital allowances in excess of depreciation	187,569	160,097
Short term timing differences	(1,165)	(1,059)
	<u>186,404</u>	<u>159,038</u>

13. ACCRUALS AND DEFERRED INCOME

	£
Government grants	
At 1 January 2002	87,820
Grants received in year	52,588
Amortisation in year	(11,143)
At 31 December 2002	<u>129,265</u>

NOTES TO THE ACCOUNTS**Year ended 31 December 2002****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 £18,021 (2001 - £11,851).

At 31 December 2002 an accrual for £417 (2001 - £nil) was included in the balance sheet in respect of pension payments.

15. CALLED UP SHARE CAPITAL

	2002 £	2001 £
Authorised:		
370,000 ordinary shares of £1 each	370,000	370,000
Called up, allotted 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 2002	120,000	141,596
Retained profit for the year	-	82,014
At 31 December 2002	120,000	223,610

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

17. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	2002 £	2001 £
Profit for the year	136,679	141,596
Dividends	(54,665)	(527,813)
Net addition /(reduction) to equity shareholders' funds	82,014	(386,217)
Opening equity shareholders' funds	406,596	792,813
Closing equity shareholders' funds	488,610	406,596

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:

	2002 £	2001 £
Expiring in one year	-	3,568
Expiring within two to five years	17,124	11,705
	17,124	15,273

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

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.