

CASTLE MacLELLAN FOODS LIMITED

Report and Financial Statements

31 December 2004

Deloitte & Touche LLP
Newcastle upon Tyne



REPORT AND FINANCIAL STATEMENTS 2004

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 – resigned 9 February 2005)
H W Roberts	(Managing Director)
E Volden	(Chairman – appointed 9 February 2005)

SECRETARY

L Hayes

REGISTERED OFFICE

Riverside
Dee Walk
Kirkcudbright
DG6 4DR

BANKERS

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 LLP
Newcastle upon Tyne

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

PRINCIPAL ACTIVITY

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

REVIEW OF BUSINESS AND FUTURE PROSPECTS

2004 has proved to be a difficult year for Castle MacLellan Foods Limited with market pressures adversely impacting on the business' underlying profitability. Plans are in place to improve operating results during 2005.

The company's strategy continues to be to capitalise on its strengths as a flexible, innovative food manufacturer and development opportunities will continue to be pursued in 2005 and beyond in line with market requirements.

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 £108,922 (2003 - £147,983).

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 – resigned 9 February 2005)
H W Roberts	(Managing Director)
E Volden	(Chairman – appointed 9 February 2005)

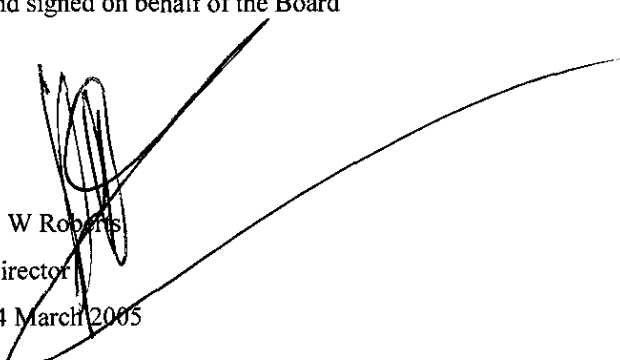
None of the directors had any interest in the shares of the company or in the share capital of Kavli Holding A/S, the ultimate parent company and its subsidiaries at 1 January 2004 or 31 December 2004.

AUDITORS

A resolution to re-appoint Deloitte & Touche LLP as the company's auditor 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
14 March 2005



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



E Volden

Director

14 March 2005

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 2004 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.

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.

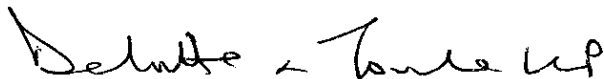
Basis of opinion

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 2004 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 LLP

Chartered Accountants and Registered Auditors

Newcastle upon Tyne

15 March 2005

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2004

	Note	2004 £	2003 £
TURNOVER		6,007,240	5,916,681
Net operating expenses	2	(5,748,068)	(5,593,458)
Operating profit		259,172	323,223
Interest receivable and similar income		3,646	4,133
Interest payable and similar charges	4	(101,535)	(85,676)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		161,283	241,680
Tax on profit on ordinary activities	5	(52,361)	(93,697)
PROFIT FOR THE FINANCIAL YEAR		108,922	147,983
DIVIDENDS	6	(108,922)	(147,983)
RETAINED PROFIT	16	-	-

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 2004

	Note	£	2004 £	£	2003 £
FIXED ASSETS					
Tangible assets	7		1,990,048		2,036,032
CURRENT ASSETS					
Stocks	8	402,596		420,046	
Debtors	9	1,564,368		1,549,724	
Cash at bank and in hand		46,131		15,979	
		<u>2,013,095</u>		<u>1,985,749</u>	
CREDITORS: amounts falling due within one year	10	<u>(1,739,393)</u>		<u>(1,606,223)</u>	
NET CURRENT ASSETS			<u>273,702</u>		<u>379,526</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			2,263,750		2,415,558
CREDITORS: amounts falling due after more than one year	11		(1,358,500)		(1,471,000)
PROVISIONS FOR LIABILITIES AND CHARGES	12		(186,093)		(197,963)
DEFERRED INCOME	13		<u>(230,547)</u>		<u>(257,985)</u>
NET ASSETS			<u>488,610</u>		<u>488,610</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		223,610
EQUITY SHAREHOLDERS' FUNDS	17		<u>488,610</u>		<u>488,610</u>

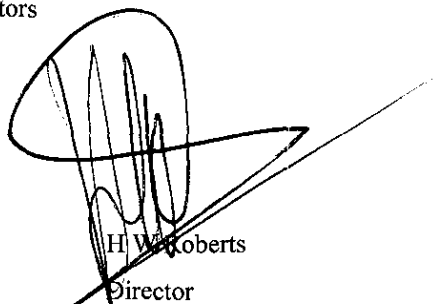
These financial statements were approved by the Board of Directors on 14 March 2005

Signed on behalf of the Board of Directors



E Volden

Director



H W Roberts

Director

NOTES TO THE ACCOUNTS

Year ended 31 December 2004

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom 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.

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. Net realisable value is based upon estimated selling price in the normal course of business after allowing for disposal costs.

Foreign currencies/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.

Taxation

Current tax, including United Kingdom corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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 2004

1. ACCOUNTING POLICIES (continued)

Pension costs

The company operates two defined contribution pension schemes for 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

	2004 £	2003 £
Changes in stocks of work in progress and finished goods	21,094	8,124
Raw materials	2,984,891	2,937,816
Staff costs (note 3)	1,238,367	1,128,812
Amortisation of government grants (note 13)	(27,438)	(31,785)
Depreciation charge for the year:		
Tangible owned fixed assets	251,767	228,392
Other operating charges	1,145,637	1,215,955
Development expenditure	81,883	89,977
Hire of plant and machinery – operating leases	15,574	11,613
Auditors' remuneration:		
Audit	3,000	3,000
Loss on sale of tangible fixed assets	33,293	1,554
	<u>5,748,068</u>	<u>5,593,458</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2004

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2004	2003
	£	£
Directors emoluments		
Aggregate emoluments (including benefits in kind)	-	-
	<u> </u>	<u> </u>
The average number of people employed by the company (including directors) during the year was:	No.	No.
Production	64	61
Sales	3	3
Administration	7	6
	<u> 74 </u>	<u> 70 </u>
	<u> </u>	<u> </u>
Staff costs during the year:	2004	2003
	£	£
Wages and salaries	1,111,837	1,017,924
Social security costs	99,507	89,724
Other pension costs (see note 14)	27,023	21,164
	<u> 1,238,367 </u>	<u> 1,128,812 </u>
	<u> </u>	<u> </u>

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2004	2003
	£	£
Interest payable on overdrafts	7,950	2,359
Interest payable on group loans	93,585	83,317
	<u> 101,535 </u>	<u> 85,676 </u>
	<u> </u>	<u> </u>

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2004	2003
	£	£
Current tax:		
United Kingdom corporation tax at 30%	63,772	72,394
Under provision in respect of prior years:		
Current	459	9,744
	<u> 64,231 </u>	<u> 82,138 </u>
Total current tax	<u> </u>	<u> </u>
Deferred tax:		
Deferred taxation at 30%	(11,729)	5,161
(Over)/under provision in respect of prior years	(141)	6,398
	<u> 52,361 </u>	<u> 93,697 </u>
	<u> </u>	<u> </u>

NOTES TO THE ACCOUNTS

Year ended 31 December 2004

5. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

The tax assessed is higher (2003 – higher) than that resulting from applying the standard rate of corporation tax in the UK of 30% (2003 – 30%). The differences are explained below:

	2004 £	2003 £
Profit before taxation	161,283	241,680
Tax at 30% thereon	48,385	72,504
Expenses not deductible for tax purposes	3,658	5,051
Capital allowances in excess of depreciation	6,761	(7,559)
Movement in short term timing differences	4,968	2,398
Prior period adjustments	459	9,744
Current tax charge for the period	64,231	82,138

6. DIVIDENDS

	2004 £	2003 £
Ordinary:		
Final proposed dividend of 75.1p per share (2003 – 102.1p)	108,922	147,983

7. TANGIBLE FIXED ASSETS

	Freehold land and buildings £	Plant and machinery £	Total £
Cost			
At 1 January 2004	876,675	2,112,527	2,989,202
Additions	-	246,576	246,576
Disposals	-	(55,000)	(55,000)
At 31 December 2004	876,675	2,304,103	3,180,778
Accumulated depreciation			
At 1 January 2004	128,899	824,271	953,170
Charge for the year	20,767	231,000	251,767
Disposals	-	(14,207)	(14,207)
At 31 December 2004	149,666	1,041,064	1,190,730
Net book value			
At 31 December 2004	727,009	1,263,039	1,990,048
At 31 December 2003	747,776	1,288,256	2,036,032

Included in the total net book value above was £nil (2003 - £nil) 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 2004

8. STOCKS

	2004 £	2003 £
Raw materials and consumables	179,950	160,698
Packaging	146,434	162,042
Work in progress	4,507	6,359
Finished goods and goods for resale	71,705	90,947
	<u>402,596</u>	<u>420,046</u>

9. DEBTORS

	2004 £	2003 £
Trade debtors	1,317,132	1,409,458
Amounts owed by group undertakings	76,834	3,139
Other debtors	57,326	67,907
Prepayments	113,076	69,220
	<u>1,564,368</u>	<u>1,549,724</u>

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004 £	2003 £
Bank loans and overdraft	-	53,505
Trade creditors	830,488	927,197
Amounts owed to group undertakings	582,889	225,381
Corporation tax	20,772	72,394
Other taxes and social security	51,453	48,977
Accruals	144,869	130,786
Dividend (note 6)	108,922	147,983
	<u>1,739,393</u>	<u>1,606,223</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2004

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

	2004 £	2003 £
Amounts owed to group undertakings	1,358,500	1,471,000

Amounts due to group undertakings include an intra group loan of £1,471,000 (2003 - £1,561,000). 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 2004 was 6.0%. The maturity of this loan is given below:

	2004 £	2003 £
Repayable as follows:		
Within one year	112,500	90,000
In more than one year but not more than two years	112,500	112,500
In more than two years but not more than five years	405,000	382,500
After more than five years	841,000	976,000
	<u>1,471,000</u>	<u>1,561,000</u>

12. PROVISIONS FOR LIABILITIES AND CHARGES

	£
Deferred taxation	
At 1 January 2004	197,963
Profit and loss account charge for the year	(11,870)
At 31 December 2004	<u>186,093</u>

	2004 £	2003 £
Analysis of deferred tax balance		
Capital allowances in excess of depreciation	197,963	211,045
Short term timing differences	(11,870)	(13,082)
	<u>186,093</u>	<u>197,963</u>

13. DEFERRED INCOME

	£
Government grants:	
At 1 January 2004	257,985
Amortisation in year	(27,438)
At 31 December 2004	<u>230,547</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 2004

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 £27,023 (2003 - £21,164).

At 31 December 2004 a prepayment of £314 (2003 – prepayment of £978) was included in the balance sheet in respect of pension payments.

15. CALLED UP SHARE CAPITAL

	2004 £	2003 £
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 2004	120,000	223,610
Profit for the financial year	-	108,922
Dividends	-	(108,922)
At 31 December 2004	120,000	223,610

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

17. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	2004 £	2003 £
Profit for the financial year	108,922	147,983
Dividends	(108,922)	(147,983)
Net addition to equity shareholders' funds	-	-
Opening equity shareholders' funds	488,610	488,610
Closing equity shareholders' funds	488,610	488,610

NOTES TO THE ACCOUNTS
Year ended 31 December 2004

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:

	2004	2003
	£	£
Expiring in one year	5,021	6,195
Expiring within two to five years	-	10,929
	<u>5,021</u>	<u>17,124</u>

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 related party transactions which are required to be disclosed in the financial statements under FRS 8 or any other requirements.

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.

The parent undertaking of the largest group which includes the company, and for which group accounts are prepared, is Kavli Holding A/S. The parent undertaking of the smallest such group is Kavli Limited.

Copies of the financial statements for either group 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.