

BARK PRODUCTS (SCOTLAND) LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 1997

CONTENTS

Page

1. DIRECTORS' REPORT
3. AUDITORS' REPORT
4. PROFIT AND LOSS ACCOUNT
5. BALANCE SHEET
6. ACCOUNTING POLICIES
7. NOTES TO THE FINANCIAL STATEMENTS



BARK PRODUCTS (SCOTLAND) LIMITED

DIRECTORS' REPORT

The directors present their annual report and audited financial statements for the year ended 30 June 1997.

RESULTS AND DIVIDENDS

The trading profit for the year after taxation was £12,565. The directors do not recommend the payment of a dividend.

REVIEW OF THE BUSINESS

The company's principal activity during the year was the preparation of pulverised bark products. Both the level of the business and the year end financial position were satisfactory and the directors expect that the present level of activity will be sustained for the foreseeable future.

DIRECTORS AND THEIR INTERESTS

The directors during the year were as follows:-

P J F Barton (Chairman)
I A Bannerman
R R Bannerman
T R Dick
R G Sinclair

No director had any declarable interest in the shares of the company during the year.

TRANSACTIONS INVOLVING DIRECTORS

During the year, the company traded on a normal commercial basis with William Sinclair Horticulture Limited (a subsidiary of William Sinclair Holdings plc) and Bannerman Company Limited. Both companies held 50% of the issued share capital of Bark Products (Scotland) Limited throughout the year.

P J F Barton and T R Dick are directors of William Sinclair Horticulture Limited and I A Bannerman and R R Bannerman are directors of Bannerman Company Limited.

BARK PRODUCTS (SCOTLAND) LIMITED**DIRECTORS' REPORT (continued)****STATEMENTS OF DIRECTORS' RESPONSIBILITIES**

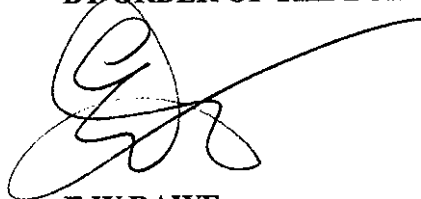
Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- ♦ select suitable accounting policies and then apply them consistently;
- ♦ make judgements and estimates that are reasonable and prudent;
- ♦ 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible 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 re-appoint the auditors, Pannell Kerr Forster, will be proposed at the annual general meeting.

BY ORDER OF THE BOARD

E W DAWE
Secretary

22 December 1997
Lincoln

BARK PRODUCTS (SCOTLAND) LIMITED**AUDITORS' REPORT TO THE SHAREHOLDERS**

We have audited the financial statements on pages 4 to 11 which have been prepared under the accounting policies set out on page 6.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

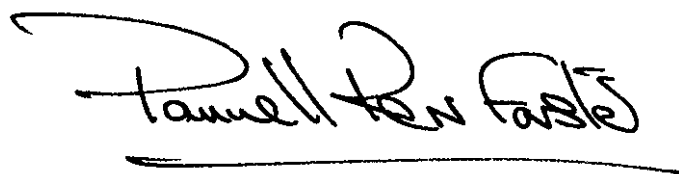
Basis of opinion

We conducted our audit in accordance with Auditing Standards. 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 as at 30 June 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink, appearing to read 'Pannell Kerr Forster', is written over a horizontal line.

22 December 1997
Lincoln

PANNELL KERR FORSTER
Chartered Accountants
Registered Auditors

BARK PRODUCTS (SCOTLAND) LIMITED**PROFIT AND LOSS ACCOUNT****YEAR ENDED 30 JUNE 1997**

	<u>Note</u>	<u>1997</u> £	<u>1996</u> £
TURNOVER		887,307	1,002,014
OPERATING CHARGES	1	884,592	996,918
OPERATING PROFIT		<u>2,715</u>	<u>5,096</u>
NET INTEREST RECEIVABLE	3	<u>11,196</u>	<u>4,766</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		13,911	9,862
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	4	1,346	2,286
RETAINED PROFIT FOR THE FINANCIAL YEAR		<u><u>12,565</u></u>	<u><u>7,576</u></u>

The movement on reserves is shown in note 11 to the financial statements.

All amounts relate to continuing operations.

The company had no recognised gains or losses other than the profit for the financial year.

BARK PRODUCTS (SCOTLAND) LIMITED**BALANCE SHEET****30 JUNE 1997**

	<u>Note</u>	<u>1997</u>	<u>1996</u>
		£	£
FIXED ASSETS			
Tangible assets	5	217,474	250,180
CURRENT ASSETS			
Stocks	6	209,503	190,121
Debtors	7	228,015	243,461
Cash at bank		109,602	-
		<u>547,120</u>	<u>433,582</u>
CREDITORS			
Amounts falling due within one year	8	605,583	534,316
NET CURRENT LIABILITIES		(58,463)	(100,734)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>159,011</u>	<u>149,446</u>
CREDITORS			
Amounts falling due after one year	8	83,500	83,500
PROVISION FOR LIABILITIES AND CHARGES	9	13,000	16,000
		<u>96,500</u>	<u>99,500</u>
NET ASSETS		<u><u>62,511</u></u>	<u><u>49,946</u></u>
CAPITAL AND RESERVES			
Called up equity share capital	10	5,000	5,000
Profit and loss account	11	57,511	44,946
EQUITY SHAREHOLDERS' FUNDS	12	<u><u>62,511</u></u>	<u><u>49,946</u></u>

Approved by the board on 22 December 1997

P J F BARTON

I A BANNERMAN

BARK PRODUCTS (SCOTLAND) LIMITED**ACCOUNTING POLICIES****YEAR ENDED 30 JUNE 1997****1. ACCOUNTING CONVENTION**

The financial statements have been prepared under the historical cost convention.

2. TURNOVER

Turnover represents sales at invoice value less trade discounts allowed and excluding value added tax. Turnover arose wholly in the UK.

3. DEPRECIATION

Depreciation is charged on tangible assets at fixed rates calculated to write off the cost over the period of their expected useful lives. The principal rates are:

Freehold buildings	-	2% on cost
Plant and machinery	-	10% - 20% on cost
Motor vehicles	-	30% Reducing Balance Method
Office equipment	-	20% on cost

New capital grants are treated as deferred income and transferred to the profit and loss account in relief of depreciation charged over the life of the relevant assets.

4. STOCKS

Stocks are stated at the lower of cost and net realisable value using the first in first out method.

Cost comprises the direct cost of production and the attributable proportion of all overheads appropriate to location and condition. Net realisable value is the estimated selling price reduced by all costs of completion, marketing, selling and distribution.

5. DEFERRED TAXATION

Provision is made for deferred tax, using the liability method, to the extent that it is probable that a liability will crystallise in the foreseeable future.

6. PENSION COSTS

The company provides for and funds pension liabilities on a going concern basis on the advice of external actuaries. Independent actuarial valuations on a going concern basis are normally carried out every three years. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of the pensions over employees working lives with the company.

BARK PRODUCTS (SCOTLAND) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 1997

		<u>1997</u> £	<u>1996</u> £
1	OPERATING CHARGES		
	Operating profit is stated after charging (or crediting):		
	Change in stocks of finished goods	(30,319)	(81,383)
	Raw materials and consumables	684,929	851,255
	Staff costs (Note 2)	87,995	86,632
	Depreciation (Note 5)	38,646	35,118
	Other operating charges	103,341	105,296
		<u>884,592</u>	<u>996,918</u>
	Other operating charges include:		
	Auditors' remuneration - audit fee	2,250	2,140
	- other services	500	550
		<u></u>	<u></u>
2	STAFF COSTS		
	Wages and salaries	80,275	79,399
	Social security costs	6,387	5,843
	Pension costs	911	961
	Other life and sickness insurance	422	429
		<u>87,995</u>	<u>86,632</u>
		<u></u>	<u></u>
		<u>Number</u>	<u>Number</u>
	The average weekly number of employees during the year was:		
	Factory	6	7
	Sales and administration	1	1
		<u>7</u>	<u>8</u>
		<u></u>	<u></u>
		£	£
	Directors' emoluments:		
	Aggregate emoluments	NIL	NIL
		<u></u>	<u></u>

BARK PRODUCTS (SCOTLAND) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 1997

	<u>1997</u> £	<u>1996</u> £
3 NET INTEREST RECEIVABLE		
Interest receivable	11,196	4,766
	<u> </u>	<u> </u>
4 TAXATION ON PROFIT ON ORDINARY ACTIVITIES		
Corporation tax on profit for the year at 23.3% (1996: 25%)	4,400	950
Over provision in previous year	(54)	(164)
Deferred taxation	(3,000)	1,500
	<u>1,346</u>	<u>2,286</u>

5 FIXED ASSETS - TANGIBLE

	<u>Freehold property</u> £	<u>Plant and machinery</u> £	<u>Motor vehicles</u> £	<u>Office equipment</u> £	<u>Total</u> £
<u>Cost</u>					
At 1 July 1996	126,311	361,622	8,826	575	497,334
Additions	25	5,915	-	-	5,940
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 June 1997	126,336	367,537	8,826	575	503,274
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Depreciation</u>					
At 1 July 1996	10,493	228,411	7,677	573	247,154
Charge for year	1,502	36,799	345	-	38,646
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 June 1997	11,995	265,210	8,022	573	285,800
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Net book amounts</u>					
At 30 June 1997	114,341	102,327	804	2	217,474
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 June 1996	115,818	133,211	1,149	2	250,180
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

BARK PRODUCTS (SCOTLAND) LIMITED**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED 30 JUNE 1997**

	<u>1997</u> £	<u>1996</u> £
6 STOCKS		
Raw materials and consumables	32,353	43,290
Finished goods and goods for resale	177,150	146,831
	<u>209,503</u>	<u>190,121</u>
7 DEBTORS		
Due within one year:		
Trade debtors	102,731	194,684
Amounts due from associated undertakings	107,420	20,086
Other Debtors	-	233
Prepayments and accrued income	17,864	28,458
	<u>228,015</u>	<u>215,003</u>
8 CREDITORS		
Amounts falling due within one year:		
Bank overdraft	-	100,107
Trade creditors	77,311	40,613
Amounts due to associated undertakings	403,406	265,084
Corporation tax payable 1 April 1998	4,400	950
Other taxation and social security	21,810	12,838
Other creditors	5,801	6,087
Accruals and deferred income	92,855	108,637
	<u>605,583</u>	<u>434,209</u>
Amounts falling due after more than one year:		
Other creditors:		
Shareholders loans	83,500	83,500

The loans are interest free and have no fixed terms for repayment.

BARK PRODUCTS (SCOTLAND) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 1997

9 PROVISION FOR LIABILITIES AND CHARGES

	<u>1997</u> £
Deferred taxation:	
At 1 July 1996	16,000
Credited to the profit and loss account	<u>(3,000)</u>
At 30 June 1997	<u>13,000</u>

Deferred taxation provision and the amount unprovided comprises:

	<u>1997</u>		<u>1996</u>	
	<u>Provision</u>	<u>Not Provided</u>	<u>Provision</u>	<u>Not Provided</u>
	£	£	£	£
Accelerated capital allowances	13,000	-	16,000	-
Short term timing differences	-	-	-	-
	<u>13,000</u>	<u>-</u>	<u>16,000</u>	<u>-</u>
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

10 CALLED UP SHARE CAPITAL

	£
Authorised	
5,000 ordinary shares of £1 each	<u>5,000</u>
 Allotted, called up and fully paid	
5,000 ordinary shares of £1 each	<u>5,000</u>

11 RESERVES

	<u>Profit and loss account</u> £
At 1 July 1996	44,946
Retained profit for the financial year	<u>12,565</u>
At 30 June 1997	<u>57,511</u>

BARK PRODUCTS (SCOTLAND) LIMITED**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED 30 JUNE 1997****12 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS**

	<u>1997</u>	<u>1996</u>
	£	£
Profit for the financial year	12,565	7,576
Opening shareholders' funds	49,946	42,370
Closing shareholders' funds	<u>62,511</u>	<u>49,946</u>

13 PENSION SCHEME

The company participates in the pension scheme operated by the parent company, details of which are given in that company's financial statements.

The Group operates a single pension scheme which provides benefits based on final pensionable pay (defined benefit basis) for all eligible employees who joined the scheme prior to 18 November 1996. Eligible employees who joined the scheme after that date have been admitted with their benefits based on contributions made (defined contribution basis). The assets of the scheme are held separately from those of the Group.

The contributions to provide benefits under the defined contribution element of the scheme are decided by the Principal Employer while contributions to provide benefits under the defined benefit element are determined by a qualified actuary on the basis of regular valuations using the projected unit credit method. At the present time there is no difference between the contribution rates, either employer or employee, for the two bases of provision.

14 RELATED PARTY TRANSACTIONS

As described on page 1, the company has traded on a normal commercial basis with associated undertakings. Purchases in the year amounted to £407,963 and sales amounted to £610,231. The amounts outstanding at the balance sheet date are shown in notes 7 and 8.

BARK PRODUCTS (SCOTLAND) LIMITED

MANAGEMENT INFORMATION

YEAR ENDED 30 JUNE 1997

BARK PRODUCTS (SCOTLAND) LIMITED**MANAGEMENT INFORMATION
SCHEDULE 'A'****TRADING AND PROFIT AND LOSS ACCOUNT****YEAR ENDED 30 JUNE 1997**

	<u>1997</u>	<u>1996</u>
£	£	£
SALES (less returns and allowances)	887,307	1,002,014
Less:		
Carriage outwards	350,777	301,995
	<u>536,530</u>	<u>700,019</u>
COST OF SALES		
Opening stock	190,121	146,722
Purchases	323,215	534,611
	<u>513,336</u>	<u>681,333</u>
Closing stock	209,503	190,121
	<u>303,833</u>	<u>491,212</u>
	232,697	208,807
DIRECT OVERHEADS (Schedule 'B')	126,697	123,727
GROSS PROFIT	<u>106,000</u>	<u>85,080</u>
INTEREST PAYABLE/RECEIVABLE		
Interest payable	-	-
Interest receivable	11,196	4,766
	<u>11,196</u>	<u>4,766</u>
	117,196	89,846
OVERHEADS		
Establishment expenses (Schedule 'B')	4,115	9,338
Administration expenses (Schedule 'B')	52,386	42,291
Other operating expenses (Schedule 'B')	46,784	28,355
	<u>103,285</u>	<u>79,984</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	<u>13,911</u>	<u>9,862</u>

BARK PRODUCTS (SCOTLAND) LIMITED**MANAGEMENT INFORMATION
SCHEDULE 'B'****OVERHEADS****YEAR ENDED 30 JUNE 1997**

	<u>1997</u> £	<u>1996</u> £
DIRECT OVERHEADS		
Wages	62,499	63,360
Salaries	24,163	21,882
Repairs and maintenance	17,886	18,046
Heat, light and power	11,990	11,062
Maintenance charges	9,863	7,869
Machinery hire	296	1,508
	<u>126,697</u>	<u>123,727</u>
ESTABLISHMENT EXPENSES		
Rent, rates and water	2,613	7,909
Depreciation of buildings	1,502	1,429
	<u>4,115</u>	<u>9,338</u>
ADMINISTRATION EXPENSES		
Pension premium and life assurance	1,333	1,390
Insurance	3,844	3,684
Motor expenses	2,823	2,325
Travel and entertaining	974	275
Telephone and telex	1,092	814
Printing, stationery and postage	525	768
Audit and professional	2,825	2,690
Advertising and promotional costs	-	199
Depreciation	37,144	33,689
Sundries	1,072	934
Commissions	1,659	(3,335)
Miscellaneous Income	(54)	(1,142)
Asset Disposal	(300)	-
Grant Received	(551)	-
	<u>52,386</u>	<u>42,291</u>
OTHER OPERATING EXPENSES		
Bank charges	478	209
Bad debts	(45)	(1,051)
Management charges	46,351	29,197
	<u>46,784</u>	<u>28,355</u>