



**WILLIAM SINCLAIR  
HORTICULTURE LIMITED**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE 2006

Company no 7633

**WILLIAM SINCLAIR HORTICULTURE LIMITED**

**FINANCIAL STATEMENTS**

For the year ended 30 June 2006

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Company registration number	7633
Registered office	Firth Road Lincoln LN6 7AH
Directors	B P Burns P D Williams P T Davenport (resigned 30 June 2006) S D Harper
Secretary	P D Williams
Auditors	Ernst & Young LLP Registered Auditors Chartered Accountants Lowgate House Lowgate Hull HU1 1JJ

**WILLIAM SINCLAIR HORTICULTURE LIMITED**

**FINANCIAL STATEMENTS**

For the year ended 30 June 2006

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<b>INDEX</b>	<b>PAGE</b>
Report of the directors	1 – 6
Report of the independent auditors	7 – 8
Primary statements	9
Balance sheet	10
Principal accounting policies	11 - 13
Notes to the financial statements	14 - 25

# **WILLIAM SINCLAIR HORTICULTURE LIMITED**

## **REPORT OF THE DIRECTORS**

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The directors present their report together with the audited financial statements for the year ended 30 June 2006

### **Results and Dividends**

The profit for the year after taxation amounted to £990,000 (2005 £849,000) The Directors do not recommend the payment of a dividend

### **Principal activity**

The company's principal activity is that of the manufacture and distribution of a range of products for the retail and professional horticultural markets

### **The Company's businesses**

The Company's operations are organised to supply four markets in the horticulture sector, and are principally involved in the manufacture and supply of horticultural consumables through retail and professional channels and our strategy going forward continues this focus

### **Business objectives**

Meeting the following business objectives is key to achieving the financial and non-financial measures that increase shareholder value

- Maximising shareholder return
- Maximising customer satisfaction
- Improving operational efficiency
- Securing employee health and safety

### **Business strategies**

The Company's strategy is to grow sales using its strong brands to address areas of the horticulture market it currently does not supply

In the professional market we have launched a blocking product, a drought-busting product and we will be launching an alternative to a wood fibre medium that is both less expensive and is nutritionally superior to the existing market leading product These and a number of other initiatives will increase the size of the addressable UK market by 50%

Within the retail market we will launch in January an extensive decorative aggregates range We believe our relationship with the horticultural retail trade will allow us to leverage distribution efficiencies and the new bagging plant at Lincoln will give us a quality and efficiency in bagging which currently does not exist in this market

# WILLIAM SINCLAIR HORTICULTURE LIMITED

## REPORT OF THE DIRECTORS

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### Performance against KPIs

The Board has assessed that the following KPIs are the most effective measures of progress towards achieving the Company's strategies and as such towards fulfilling the Company's objectives

<i>Measure</i>	<i>2006</i>	<i>2005</i>
Sales growth	(5.4%)	(3.3%)
Operating profit	3.7%	3.4%
Number of accidents	6	8

Sales growth has not been achieved this year. The reasons for this are primarily our exit from low margin markets and the difficult trading conditions in the horticulture and retail markets generally. As set out above, strategies are in place to achieve the target sales growth in the near future.

Operating profit is also below target as a percentage of sales. Again, as set out above, there are strategies in place to improve margins primarily by reducing costs.

We monitor a range of "accident statistics" to ensure that the fullest priority is given to the health and safety of our employees. All accidents are investigated with a view to improving work procedures and the working environment to minimise the risk of further accidents.

We also monitor customer satisfaction through a variety of measures and are pleased to conclude that we have achieved a large improvement in customer service. We believe that William Sinclair leads the marketplace in customer satisfaction.

### Future developments

As set out above, the Board believes it has strategies in place to improve the Company's performance in the years ahead. Sales will be achieved by maintaining our reputation while developing additional product ranges and technological improvements to our products.

### Employee Policies

The Company aims to recruit and retain employees who are valued for their contribution and able to fulfil their potential in meeting the Company's business objectives. To achieve this, each sector aims to provide opportunities for its employees to develop their skills through ongoing training.

The Company's strategies for retaining staff include the provision of competitive terms and conditions, communication of business performance and objectives, family-friendly policies and bonuses or profit share schemes.

### Principal risks and uncertainties

Management carries out an annual, formal review of the risks facing the Company. Risks are identified along with the likelihood of them arising and assessed in terms of possible consequences. Where merited, actions are identified to reduce the risks or mitigate the likely consequences.

The main areas of risk are in customer retention, product liability, physical loss of assets and financial loss of assets. The Company's actions in these areas include protecting reputation and customer satisfaction along with quality assurance procedures. In addition the Company has extensive insurance policies in place.

# WILLIAM SINCLAIR HORTICULTURE LIMITED

## REPORT OF THE DIRECTORS

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### **Intellectual capital**

The Company has an extensive range of trademarks that are protected through registration in both the UK and overseas markets. It continues to develop innovative products and constituents of existing products in order to maintain its position in the market place.

### **Relationships**

The Company recognises its responsibilities to stakeholders other than its shareholders and employees. It seeks to participate in the local communities by using local services and suppliers where possible, taking account of local comment to minimise the impact of its operations and by encouraging staff to be involved in local activities.

We participate in trade associations and industry groups where these give us genuine access to customer and supplier groups and decision makers in government and other regulatory bodies.

### **Treasury policies**

The objectives of the treasury function are to manage the Company's financial risk, secure cost-effective funding for the Company's operations and to minimise the adverse effects of fluctuations in the financial markets on the value of the Company's financial assets and liabilities, on reported profitability and on the cash flows of the company.

The Company finances its activities with a combination of overdraft, bank loans, finance leases and hire purchase contracts. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Company's operating activities. The Company does not currently enter into derivative transactions such as forward currency contracts or interest rate swaps. The Company does not trade in financial instruments.

The main risks associated with the Company's financial assets and liabilities are set out below.

### **Foreign currency risk**

The Company has very little invested in operations outside the United Kingdom.

Wherever practical the Company seeks to purchase and sell goods and services in sterling. On occasions this is not possible with the result that a small proportion of transactions, both purchases and sales, are denominated in either Euros or in US dollars. The net impact of these transactions is broadly neutral but any short-term exposure above a modest level approved from time to time by the Board is closed out using spot purchases or sales of currency. Where an individual transaction is likely to be above £100,000 then it is immediately taken into account in assessing the short-term exposure.

### **Interest rate risk**

The Company's policy is to manage its cost of borrowing using a mix of fixed and variable rate debt. Because of the seasonal nature of the business the Company requires significant short-term debt. The Board considers that the interest rate risk on this debt is very limited and so utilising variable rate debt is appropriate. The Board considers the interest rate risk on the current low level of long term debt is not significant.

### **Credit risk**

The Company supplies most of its customers on credit and applies strict credit account opening procedures which include the need to obtain a credit rating. In addition the Company purchases credit insurance to cap its exposure at a percentage of individual balances. Individual customer exposures are monitored in conjunction with the insurance company to ensure that the Company's exposure to bad debts is not significant.

# WILLIAM SINCLAIR HORTICULTURE LIMITED

## REPORT OF THE DIRECTORS

### Treasury policies (continued)

#### Liquidity risk

The Company aims to minimise liquidity risk by close management of its cash generation. Bank balances are monitored on a daily basis. Capital expenditure is carefully controlled, with authorisation limits for the executive directors beyond which Group Board approval is required. Cash payback periods are reviewed as part of the investment appraisal process.

The Company's funding needs are currently met through retained earnings, short term debt in the form of overdraft facilities and a modest level of long term debt. The seasonal nature of the business makes this the most appropriate debt profile. Should the business require additional long term funding then appropriate borrowing policies will be set by the Board in conjunction with the debt providers.

Short term excess cash is only invested in interest bearing deposits with maturities fixed at no more than 3 months.

#### Price risk

The Company is exposed to changes in raw materials and packaging prices where these are based on worldwide commodity prices for fertilisers or on oil prices. The Company minimises its exposure through fixed supplier agreements where possible, including for the supply of heating oil and gas. Many packaging plastics are dependent on oil prices and the company puts in place rolling three month purchase agreements to reduce the impact of price fluctuations.

It is, and has been throughout the period under review, the Company's policy that no trading in derivative financial instruments shall be undertaken.

### Directors

The membership of the Board as at 30 June 2006 is set out below.

NF Uzzell resigned from the Board on 11 October 2005 and PD Davenport resigned from the Board on 30 June 2006.

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

The interests of the directors and their families in the shares of the parent undertaking, William Sinclair Holdings plc, as at 1 July 2005 and 30 June 2006 were as follows:

	Ordinary shares of 25p each			
	30 June 2006		30 June 2005	
	Beneficial holding	Share options	Beneficial holding	Share options
S D Harper	-	15,000	-	15,000
B P Burns	Disclosed in parent undertaking's financial statements			
P D Williams	Disclosed in parent undertaking's financial statements			

### Employee involvement

The group places considerable value on the involvement of its employees and keeps them informed on matters affecting them as employees and on the various factors affecting the performance of the group. This is achieved through formal and informal meetings and regular company circulars. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interest.

# **WILLIAM SINCLAIR HORTICULTURE LIMITED**

## **REPORT OF THE DIRECTORS**

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### **Disabled employees**

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

### **Charitable and political contributions**

Donations to charitable organisations amounted to £840 (2005 £940)

### **Supplier payment policy and practice**

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

At 30 June 2006, the company had an average of 52 days purchases owed to trade creditors.

### **Auditors**

Special notice pursuant to Section 388(3) having been given, a resolution to re-appoint Ernst & Young LLP as auditors will be proposed at the Annual General Meeting.

### **Directors' statement as to disclosure of information to auditors**

The directors who were members of the board at the time of approving the directors' report are listed on page 4. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware, and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.



# WILLIAM SINCLAIR HORTICULTURE LIMITED

## REPORT OF THE DIRECTORS

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### Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 that 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the board



P D Williams  
Secretary

26 April 2007

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF  
WILLIAM SINCLAIR HORTICULTURE LIMITED**

We have audited the financial statements of William Sinclair Horticulture Limited for the year ended 30 June 2006 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the principal accounting policies, the note of historical cost profit and losses and notes 1 to 25. 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 an 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 the directors and auditors**

The Directors are responsible for the preparation of the Annual Report and the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and international standards on auditing (UK and Ireland).

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 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 with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

**Basis of audit opinion**

We conducted our audit in accordance with international standards on auditing (UK and Ireland) 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.

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF**

**WILLIAM SINCLAIR HORTICULTURE LIMITED (CONTINUED)**

**Opinion**

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 June 2006 and of the company's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

*Ernst & Young LLP*

Ernst & Young LLP  
Registered Auditors  
Hull

26 April 2007

**WILLIAM SINCLAIR HORTICULTURE LIMITED****PROFIT AND LOSS ACCOUNT AND STATEMENT OF RECOGNISED GAINS AND LOSSES**

For the year ended 30 June 2006

**Profit and loss account**

	Note	2006 £'000	2005 restated £'000
Turnover	1	40,408	42,707
Operating charges	2	<u>(38,930)</u>	<u>(41,267)</u>
<b>Operating profit</b>		<b>1,478</b>	<b>1,440</b>
Income from joint ventures	3	<u>35</u>	<u>21</u>
<b>Profit on ordinary activities before interest and taxation</b>		<b>1,513</b>	<b>1,461</b>
Net interest	4	(21)	(108)
Other finance costs - pensions	23	<u>(32)</u>	<u>(116)</u>
<b>Profit on ordinary activities before taxation</b>	1	<b>1,460</b>	<b>1,237</b>
Tax on profit on ordinary activities	6	<u>(470)</u>	<u>(388)</u>
<b>Profit on ordinary activities after taxation</b>	18	<b><u>990</u></b>	<b><u>849</u></b>

**Statement of total recognised gains and losses**

	2006 £'000	2005 £'000
Surplus on revaluation of land and buildings	964	2,375
Actuarial gains/(losses) on defined benefit pension plans	2,135	(823)
Tax on actuarial gains and losses	<u>(641)</u>	<u>247</u>
	<b>2,458</b>	<b>1,799</b>
Profit for the financial year	<u>990</u>	<u>849</u>
Total recognised gains and (losses) relating to the year	<b>3,448</b>	<b><u>2,648</u></b>
Prior year adjustment	<u>(4,567)</u>	
Total recognised gains and (losses) since last annual report	<b><u>(1,119)</u></b>	

**Note of historical cost profits and losses**

	2006 £'000	2005 £'000
<b>Profit on ordinary activities before taxation</b>	<b>1,460</b>	<b>1,237</b>
Difference between historical cost depreciation charge and depreciation charge based on revalued amounts	<u>27</u>	<u>71</u>
Historical cost profit on ordinary activities before taxation	<b><u>1,487</u></b>	<b><u>1,308</u></b>

**WILLIAM SINCLAIR HORTICULTURE LIMITED**

BALANCE SHEET AT 30 JUNE 2006

	Note	2006 £'000	2005 restated £'000
<b>Fixed assets</b>			
Tangible assets	8	12,730	12,351
Investments	9	1,855	1,855
		<u>14,585</u>	<u>14,206</u>
<b>Current assets</b>			
Stocks	10	4,967	5,550
Debtors	11	12,320	12,621
Cash at bank and in hand		6,368	4,888
		<u>23,655</u>	<u>23,059</u>
<b>Creditors amounts falling due within one year</b>	12	<u>(21,773)</u>	<u>(22,603)</u>
<b>Net current assets</b>		<u>1,882</u>	<u>456</u>
<b>Total assets less current liabilities</b>		<u>16,467</u>	<u>14,662</u>
<b>Creditors amounts falling due after more than one year</b>	13	<u>(5,257)</u>	<u>(5,329)</u>
<b>Provisions for liabilities and charges</b>	15	<u>(799)</u>	<u>(731)</u>
<b>Net assets excluding pension liability</b>		<u>10,411</u>	<u>8,602</u>
Defined benefit pension liability	23	<u>(3,409)</u>	<u>(5,048)</u>
<b>Net assets</b>		<u>7,002</u>	<u>3,554</u>
<b>Capital and reserves</b>			
Called up share capital	17	510	510
Capital reserve	18	125	125
General reserve	18	1,092	1,092
Revaluation reserve	18	4,953	3,989
Profit and loss account		322	(2,162)
<b>Equity shareholders' funds</b>	19	<u>7,002</u>	<u>3,554</u>

The financial statements were approved by the Board of Directors on 26 April 2007

B P Burns  Director

P D Williams  Director

The accompanying accounting policies and notes form an integral part of these financial statements

# **WILLIAM SINCLAIR HORTICULTURE LIMITED**

## **PRINCIPAL ACCOUNTING POLICIES**

For the year ended 30 June 2006

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### **BASIS OF PREPARATION**

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards and under the historical cost convention with the exception of the revaluation of certain freehold and leasehold properties

In preparing the financial statements for the current year, the company has adopted FRS17 'Retirement Benefits' in full

The change in accounting policy has resulted in a prior year adjustment. Shareholder funds as at 1 July 2004 have reduced by £4,567,000, being the recognition of the net pension scheme liabilities as at 30 June 2004. The effect of this change in policy on current years profits has been a decrease of £89,000 (2005 increase of £9,000). A profit of £1,494,000 (2005 loss of £576,000) has been recognised in the statement of total recognised gains and losses, being the actuarial gains/(losses) recognised on the pension scheme.

As a wholly owned subsidiary of William Sinclair Holdings plc, the company is exempt from the requirement to prepare group accounts by virtue of section 228 of the Companies Act 1985. These financial statements therefore present information about the company as an individual undertaking and not about its group.

The principal accounting policies of the company have remained unchanged from the previous year and are set out below.

### **TURNOVER**

Turnover, which excludes value added tax, is the value of goods supplied and services provided. Revenue is recognised at the time of supply of goods or provision of the services.

### **TANGIBLE FIXED ASSETS AND DEPRECIATION**

Depreciation is provided on all property, including peat bogs, vehicles and plant and equipment, other than other freehold land, at rates calculated to write down the cost or valuation, less residual value, of each asset by equal annual instalments over their expected useful lives, as follows:

Freehold buildings	2%
Short leasehold land and buildings	Period of the lease
Plant and equipment	10% - 33%
Motor vehicles	20% - 33%

The carrying values of fixed assets are reviewed for impairment if circumstances indicate that those values may not be recoverable.

### **REVALUATION OF PROPERTIES**

The Company's freehold and short leasehold properties are subject to revaluation in accordance with Financial Reporting Standard No 15. No value is attributed to unharvested peat deposits contained within the relevant freehold and leasehold properties.

### **LEASING**

Finance leases relating to the purchase of equipment, plant and vehicles have been capitalised and depreciated in accordance with the company's depreciation policy. The capital element of future lease payments is included in creditors as obligations under finance leases. Interest costs under finance leases are charged to the profit and loss account at a constant periodic rate of charge.

Operating lease rentals are charged to the profit and loss account over the lease term.

# **WILLIAM SINCLAIR HORTICULTURE LIMITED**

## **PRINCIPAL ACCOUNTING POLICIES**

For the year ended 30 June 2006

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### **INVESTMENTS**

Investments are included at cost less amounts written off. Dividends received from investments are shown as income from the joint ventures.

### **STOCKS**

Stocks are stated at the lower of cost and net realisable value.

Cost comprises the direct cost of production and the attributable proportion of all overheads appropriate to location and condition. Stocks of harvested peat include the direct cost of production and overheads based on the long-run level of harvest activity. Net realisable value is the estimated selling price reduced by any costs of completion, marketing, selling and distribution.

### **DEFERRED TAXATION**

Deferred Taxation is recognised on all timing differences that have originated but have not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold,
- provision is made for deferred tax that would arise on remittance of the retained earnings of associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable,
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

### **FOREIGN CURRENCIES AND FORWARD CONTRACTS**

All exchange gains or losses are included in the determination of profit for the year.

The company sometimes uses forward foreign currency contracts to reduce exposure to foreign exchange rates. The criteria for forward currency contracts are:

- the instrument must be related to a foreign currency asset or liability that is probable,
- it must involve the same currency as the hedged item, and
- it must reduce the risk of foreign currency exchange movements on the company's operations.

The rates under such contracts are used to record the hedged item. As a result, gains and losses are offset against the foreign exchange gains and losses on the related financial assets and liabilities or, where the instrument is used to hedge a committed, or probable, future transaction, are deferred until the transaction occurs.

# **WILLIAM SINCLAIR HORTICULTURE LIMITED**

## **PRINCIPAL ACCOUNTING POLICIES**

For the year ended 30 June 2006

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### **CONTRIBUTIONS TO PENSION SCHEMES**

The Company operates a defined benefit pension scheme which was closed to new entrants in 1996. The contributions of eligible employees and employing companies are administered in funds independent from the company's assets. The scheme is funded on a going concern basis on the advice of external actuaries.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in profit or loss on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs.

The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year. The difference between the expected return on plan assets and the interest cost is recognised in the income statement as other finance income or expense.

Actuarial gains and losses are recognised in full in the statement of recognised income and expense in the period in which they occur.

The defined benefit pension liability in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price.

The Company also operates a Company Personal Pension Plan, which is a defined contribution scheme. Contributions to the scheme are charged against the income statement as they arise.

### **REINSTATEMENT PROVISIONS**

The cost of reinstating the company's peat mosses are recognised as a liability as the peat is harvested. Provision is made as each site is worked and an obligation incurred. Where the effect of the time value of money is material the provision is discounted.



# WILLIAM SINCLAIR HORTICULTURE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

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### 1 TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The turnover and profit on ordinary activities before taxation is attributable to the company's principal activity and arises as follows

	2006 £'000	2005 £'000
United Kingdom	39,152	40,046
Europe	-	290
Middle and Far East	1,256	2,371
	<u>40,408</u>	<u>42,707</u>

The profit on ordinary activities before taxation is stated after

	2006 £'000	2005 £'000
Auditors' remuneration		
Audit services	30	30
Non-audit services	3	3
	<u>33</u>	<u>33</u>
Depreciation		
Tangible fixed assets owned	966	1,003
Tangible fixed assets held under finance leases and hire purchase contracts	30	30
	<u>996</u>	<u>1,033</u>
Hire of plant and machinery under operating leases	284	146
Other operating lease rentals	192	258
	<u>476</u>	<u>404</u>

### 2 OPERATING CHARGES

	2006 £'000	2005 £'000
Change in stocks of finished goods	1,287	(285)
Raw materials and consumables	18,038	19,818
Staff costs	7,746	7,107
Depreciation	996	1,033
Income from joint venture	(35)	(21)
Other operating charges	10,898	13,615
	<u>38,930</u>	<u>41,267</u>

### 3 INCOME FROM JOINT VENTURES

The balance shown represents the dividend income received in the year from the Company's investment in joint ventures

**WILLIAM SINCLAIR HORTICULTURE LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2006

**4 NET INTEREST**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
On bank loans and overdrafts	50	9
Hire purchase interest	10	15
Interest payable to group undertakings	26	90
	<u>86</u>	<u>114</u>
Interest receivable	(65)	(6)
Net interest	<u>21</u>	<u>108</u>

**5 DIRECTORS AND EMPLOYEES**

Staff costs during the year were as follows:

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	6,731	6,153
Social security costs	486	596
Other pension costs	529	358
	<u>7,746</u>	<u>7,107</u>

The average number of employees of the company during the year was

	<b>2006</b>	<b>2005</b>
	<b>Number</b>	<b>Number</b>
Production	193	185
Administration	100	108
	<u>293</u>	<u>293</u>

Remuneration in respect of directors was as follows

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Emoluments	314	240
Pension contributions to money purchase pension schemes	5	5
	<u>319</u>	<u>245</u>

During the year 2 directors (2005 2) participated in defined benefit pension schemes and 1 director (2005 1) participated in a money purchase pension scheme

# WILLIAM SINCLAIR HORTICULTURE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

### DIRECTORS AND EMPLOYEES (CONTINUED)

The amounts set out above include remuneration in respect of the highest paid director as follows

	2006 £'000	2005 £'000
Emoluments, including compensation for loss of office of £104,000 (2005 £nil)	<u>207</u>	<u>102</u>

The highest paid director's accrued pension at the year end was £18,224 (2005 £16,125)

### 6 TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge represents

	2006 £'000	2005 £'000
Corporation tax at 30% (2005 30%)	174	60
Group relief	<u>290</u>	<u>314</u>
	464	374
Adjustment in respect of prior period	-	(36)
Total current tax	<u>464</u>	<u>338</u>
Origination and reversal of timing differences	13	28
Adjustment in respect of prior period	<u>(7)</u>	<u>22</u>
Total deferred tax (note 16)	<u>6</u>	<u>50</u>
Tax on profit on ordinary activities	<u>470</u>	<u>388</u>

The tax assessed for the period is higher than the standard rate of corporation tax in the UK of 30% (2005 30%)  
The differences are explained as follows

	2006 £'000	2005 £'000
Profit on ordinary activities before tax	<u>1,460</u>	<u>1,237</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005 30%)	438	371
<b>Effect of:</b>		
Non qualifying depreciation, expenses not deductible for tax purposes and other permanent differences	62	23
Capital gains	29	11
Depreciation in excess of capital allowances	46	(17)
Dividends from joint ventures – non-taxable	(10)	(6)
Other short term differences	(90)	(8)
Adjustments to tax charge in respect of prior periods	(7)	(36)
Marginal relief	<u>(4)</u>	<u>-</u>
Current tax charge for period	<u>464</u>	<u>338</u>

No provision has been made for deferred tax on gains recognised on revaluing property to its market value. The total amount unprovided as at 30 June 2006 is £1,486,000 (2005 £1,197,000). Such tax would only become

# WILLIAM SINCLAIR HORTICULTURE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

payable if the properties were sold without it being possible to claim rollover relief At 30 June 2006, it is not envisaged that any tax will become payable

No provision has been made for deferred tax on the sale of properties where potentially taxable gains have been rolled over into replacement assets Such tax would only become payable if the property were sold without it being possible to claim rollover relief

As at 30 June 2006, the gains rolled over into replacement assets total £130k and resulting unprovided deferred tax is £39k At 30 June 2006 it is not envisaged that any of the tax not provided will become payable

### 7 DIVIDENDS

	2006 £'000	2005 £'000
Interim dividend of £nil (2005 32 3p) per share	-	165
Proposed final dividend of £nil (2005 £nil) per share	-	-
	<u>-</u>	<u>165</u>

### 8 TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Short leasehold land and buildings £'000	Plant and vehicles £'000	Total £'000
Cost or valuation				
At 1 July 2005	5,159	2,669	16,804	24,632
Additions	11	-	1,391	1,402
Disposals	-	-	(2,950)	(2,950)
Revaluation at 30 June 2006	576	241	-	817
At 30 June 2006	<u>5,746</u>	<u>2,910</u>	<u>15,245</u>	<u>23,901</u>
Depreciation				
At 1 July 2005	-	-	12,281	12,281
Provided in the year	55	92	849	996
Disposals	-	-	(1,959)	(1,959)
Eliminated on revaluation	(55)	(92)	-	(147)
At 30 June 2006	<u>-</u>	<u>-</u>	<u>11,171</u>	<u>11,171</u>
Net book amount at 30 June 2006	<u>5,746</u>	<u>2,910</u>	<u>4,074</u>	<u>12,730</u>
Net book amount at 30 June 2005	<u>5,159</u>	<u>2,669</u>	<u>4,523</u>	<u>12,351</u>

The figures stated above include assets held under finance leases and similar hire purchase contracts, as follows

	Plant and equipment £'000
Net book amount at 30 June 2006	<u>231</u>
Net book amount at 30 June 2005	<u>261</u>
Depreciation provided in the year	<u>30</u>

# WILLIAM SINCLAIR HORTICULTURE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

### TANGIBLE FIXED ASSETS (CONTINUED)

Included within the valuation of freehold property is an amount of £2,560,000 (2005 £2,905,000) relating to land which has not been depreciated

All the company's freehold and leasehold properties were valued by NAI Fuller Peiser, Property Consultants and Chartered Surveyors, on 30 June 2006. The site at Bolton Fell and the Group's peat mosses in Scotland were valued as specialised operational properties on the basis of depreciated replacement cost. The remaining properties were valued on an existing use basis. No value is attributed to unharvested peat deposits contained within the relevant freehold and leasehold properties.

If land and buildings has not been revalued, they would have been included on the historical cost basis at the following amounts

	<b>Freehold land and buildings £'000</b>	<b>Short leasehold land and buildings £'000</b>
Cost	4,718	1,829
Accumulated depreciation	(816)	(950)
Net book amount at 30 June 2006	<u>3,902</u>	<u>879</u>
Net book amount at 30 June 2005	<u>3,939</u>	<u>952</u>

### 9 FIXED ASSET INVESTMENTS

	<b>Investment in group undertakings £'000</b>	<b>Interests in joint ventures £'000</b>	<b>Total £'000</b>
Cost			
At 1 July 2005 and at 30 June 2006	<u>600</u>	<u>1,255</u>	<u>1,855</u>

**WILLIAM SINCLAIR HORTICULTURE LIMITED**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

**FIXED ASSET INVESTMENTS (CONTINUED)**

At 30 June 2006, the company held 20% or more of the allotted share capital of the following

	<b>Class of share capital held</b>	<b>Proportion held</b>	<b>Nature of business</b>		
<b>Subsidiary undertaking</b>					
Boothby and Penicuik Peat Company Limited	Ordinary	100%	Dormant		
				<b>Aggregate of capital and reserves</b>	<b>Profit/(loss) for financial year</b>
				<b>£'000</b>	<b>£'000</b>
<b>Joint ventures</b>					
Bark Products (Scotland) Limited	Ordinary	50%	Pulverised bark processor	384	27
Freeland Horticulture Limited	Ordinary	50%	Supply of green waste	915	372
Ou Alutaguse Turvas	Ordinary	50%	Supply of peat	53	(11)

Ou Alutaguse Turvas is incorporated in Estonia. The company has a financial year end of 31 December and ceased trading at 31 December 2005. The information stated above is in respect of the year ended 31 December 2005.

**10 STOCKS**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Raw materials and consumables	3,016	2,312
Finished goods and goods for resale	1,951	3,238
	<b>4,967</b>	<b>5,550</b>

**11 DEBTORS**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Trade debtors	10,678	10,836
Amounts owed by group undertakings	676	446
Other debtors	32	200
Corporation tax recoverable	-	421
Prepayments and accrued income	934	718
	<b>12,320</b>	<b>12,621</b>

**WILLIAM SINCLAIR HORTICULTURE LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2006

**12 CREDITORS. AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2006 £'000	2005 £'000
Bank overdrafts	80	897
Trade creditors	5,149	5,980
Amounts owed to group undertakings	10,660	10,721
Amounts owed to joint ventures	897	1,017
Other taxation and social security	1,581	1,107
Other creditors	80	161
Accruals and deferred income	2,811	2,673
Corporation tax	468	-
Obligations under finance leases and hire purchase contracts	47	47
	<u>21,773</u>	<u>22,603</u>

Amounts due under finance leases and hire purchase contracts are secured on the assets to which they relate

**13 CREDITORS. AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	2006 £'000	2005 £'000
Amounts owed to group undertakings	5,171	5,171
Obligations under finance leases and hire purchase contracts	86	158
	<u>5,257</u>	<u>5,329</u>

**14 OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS**

Finance lease and hire purchase borrowings are repayable as follows

	2006 £'000	2005 £'000
Within one year	47	47
Two to five years	86	158
	<u>133</u>	<u>205</u>

Amounts due under finance leases and hire purchase contracts are secured on the assets to which they relate

**WILLIAM SINCLAIR HORTICULTURE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2006

**15 PROVISIONS FOR LIABILITIES AND CHARGES**

	Deferred taxation (note 16) £'000	Other provisions £'000	Total £'000
At 1 July 2005	585	146	731
Arising in the year	-	17	17
Movement in discount rate	-	7	7
Utilised	-	-	-
Movement in the year	44	-	44
At 30 June 2006	<u>629</u>	<u>170</u>	<u>799</u>

Other provisions include a moss reinstatement provision. The reinstatement provision is built up as peat is extracted. It is expected that the costs of reinstatement will have been incurred within 11 years of the balance sheet date. The costs are discounted to take account of the time value of money.

**16 DEFERRED TAXATION**

Deferred taxation provided for in the financial statements is set out below

	2006 £'000	2005 £'000
Accelerated capital allowances	557	603
Short-term timing differences	72	(18)
	<u>629</u>	<u>585</u>

**17 SHARE CAPITAL**

	2006 £'000	2005 £'000
Authorised 630,000 ordinary shares of £1 each	<u>630</u>	<u>630</u>
Allotted, called up and fully paid 510,000 ordinary shares of £1 each	<u>510</u>	<u>510</u>

**18 RESERVES**

	Capital reserve £'000	General reserve £'000	Revaluation reserve £'000	Profit and loss account £'000	Total £'000
At 1 July 2005	125	1,092	3,989	(2,162)	3,044
Actuarial gains and losses	-	-	-	1,494	1,494
Surplus on property revaluation	-	-	964	-	964
Profit for the year	-	-	-	990	990
At 30 June 2006	<u>125</u>	<u>1,092</u>	<u>4,953</u>	<u>322</u>	<u>6,492</u>



**WILLIAM SINCLAIR HORTICULTURE LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2006

**19 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	2006 £'000	2005 £'000
Profit for the financial year	990	849
Dividends	-	(165)
Revaluation of properties	964	2,375
Actuarial gains/(losses) on defined benefit pension plans net of tax	1,494	(576)
Net increase in shareholder's funds	3,448	2,483
Shareholders' funds at 1 July as previously reported	3,554	5,638
Prior year adjustment – adoption of FRS17	-	(4,567)
Shareholders' funds at 30 June 2006	<u>7,002</u>	<u>3,554</u>

**20 CAPITAL COMMITMENTS**

	2006 £'000	2005 £'000
Contracted but not provided for	<u>Nil</u>	<u>534</u>

**21 CONTINGENT LIABILITIES**

The company is party to an omnibus guarantee and set off agreement in respect of its own and all other group companies' bank accounts

The company has provided a duty deferment guarantee H M Revenue & Customs for a maximum amount of £200,000

**22 LEASING COMMITMENTS**

	2006 Land and buildings £'000	Other £'000	2005 Land and buildings £'000	Other £'000
In one year or less	-	42	42	8
Between two and five years	192	242	99	138
In five years or more	-	-	117	-
	<u>192</u>	<u>284</u>	<u>258</u>	<u>146</u>

# WILLIAM SINCLAIR HORTICULTURE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

### 23 PENSIONS

The Company operates a Group Personal Pension Plan. The Company's contributions are made on the basis of a pre-defined scale related to the employees' contributions.

The Company also operates a pension scheme which provides benefits on a defined benefit basis. This was closed to new members on 18 November 1996. The assets of the scheme are held separately from those of the Company. Scheme assets are stated at their market values at the respective balance sheet dates and overall expected rates of return are established by applying published brokers' forecasts to each category of scheme assets. The Company's contributions are determined by an independent qualified actuary, Buck Consultants, on the basis of regular valuations using the projected unit credit method.

The assets and liabilities of the scheme at 30 June are

	2006 £000	2005 £000	2004 £000
Scheme assets at fair value			
Equities	11,785	12,158	10,400
Government stock	2,954	1,870	1,540
Corporate bonds	2,905	1,875	1,556
Cash	87	80	74
	<u>17,731</u>	<u>15,983</u>	<u>13,570</u>
Fair value of scheme assets			
Present value of scheme liabilities	(22,738)	(23,232)	(20,093)
	<u>(5,007)</u>	<u>(7,249)</u>	<u>(6,523)</u>
Net pension liability			
Related deferred tax asset	1,598	2,201	1,956
	<u>(3,409)</u>	<u>(5,048)</u>	<u>(4,567)</u>

The amounts recognised in the Company Profit and Loss Account and in the Company Statement of Total Recognised Gains and Losses for the year are analysed as follows

	2006 £000	2005 £000
<i>Recognised in Profit and Loss Account</i>		
Current service cost	(493)	(375)
Past service cost	-	-
	<u>(493)</u>	<u>(375)</u>
Recognised in Profit and Loss Account		
	<u>(493)</u>	<u>(375)</u>
	2006 £000	2005 £000
Expected return on scheme assets	1,094	1,018
Interest cost on scheme liabilities	(1,126)	(1,134)
	<u>(32)</u>	<u>(116)</u>
Other finance cost		

**WILLIAM SINCLAIR HORTICULTURE LIMITED**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

**PENSIONS (Continued)**

	2006 £000	2005 £000
<i>Taken to the Statement of Total Recognised Gains and Losses</i>		
Actual return on scheme assets	2,014	2,332
Less expected return on scheme assets	(1,094)	(1,018)
	<u>920</u>	<u>1,314</u>
Other actuarial gains and losses	1,215	(2,137)
	<u>2,135</u>	<u>(823)</u>
Actuarial gains/(losses) recognised in the Statement of Total Recognised Gains and Losses	<u>2,135</u>	<u>(823)</u>

	2006 %	2005 %	2004 %
<i>Main assumptions</i>			
Rate of salary increases	2.5	2.5	2.96
Discount rate	5.2	4.9	5.72
Expected rates of return on scheme assets			
Equities	7.6	7.6	8.12
Government Stocks	4.7	4.3	4.00
Corporate bonds	5.2	4.9	5.40
Properties	7.6	7.6	8.12
Inflation assumption	2.5	2.3	2.96

The total charge to the Company Profit and Loss Account in respect of the defined benefit plan in 2007 is expected to be £447,000 for the company

Changes in the present value of the defined benefit pension obligations are analysed as follows

	2006 £000	2005 £000
As at 1 July	23,232	20,093
Current service cost	493	375
Interest cost	1,126	1,134
Benefits paid	(897)	(703)
Actuarial gains and losses	(1,215)	2,137
Employee contributions	175	196
Expenses and life assurance premiums	(176)	-
	<u>22,738</u>	<u>23,232</u>
As at 30 June	<u>22,738</u>	<u>23,232</u>

# WILLIAM SINCLAIR HORTICULTURE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

### PENSIONS (Continued)

Changes in the fair value of plan assets are analysed as follows

	2006	2005
	£000	£000
As at 1 July	15,983	13,570
Actual return on plan assets	2,014	2,332
Employer contributions	632	588
Contributions by employees	175	196
Benefits paid	(897)	(703)
Expenses and life assurance premiums	(176)	-
As at 30 June	<u>17,731</u>	<u>15,983</u>

History of experience gains and losses

	2006	2005	2004
	£000	£000	£000
Fair value of scheme assets	17,731	15,983	13,570
Present value of defined benefit obligation	(22,738)	(23,232)	(20,093)
Deficit in the scheme	<u>(5,007)</u>	<u>(7,249)</u>	<u>(6,523)</u>
Experience adjustments arising on plan liabilities	1,215	(2,137)	(698)
Experience adjustments arising on plan assets	920	1,314	851

### 24 TRANSACTIONS WITH DIRECTORS AND OTHER RELATED PARTIES

As a wholly-owned subsidiary of William Sinclair Holdings plc, the company is exempt from the requirements of FRS 8 to disclose transactions with other members of the group headed by William Sinclair Holdings plc on the grounds that consolidated accounts are publicly available

During the year, the company traded on a normal commercial basis with Bark Products (Scotland) Limited and Freehold Horticulture Limited both of which are 50% owned by the company P D Williams and P T Davenport are directors of each of Bark Products (Scotland) Limited and Freeland Horticulture Limited, though P T Davenport resigned both directorships on 30 June 2006 B P Burns was appointed a director of Freeland Horticulture Limited on 7 September 2006

### 25 ULTIMATE PARENT UNDERTAKING

The directors consider that the ultimate parent undertaking of this company and its controlling party is its parent company William Sinclair Holdings plc

The largest and smallest group of undertakings for which group accounts have been drawn up is that headed by William Sinclair Holdings plc Copies of the group accounts can be obtained from Firth Road, Lincoln, LN6 7AH