

# COMMUNITY FOODS GROUP LIMITED

## REPORT OF THE DIRECTORS

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The directors present their report together with the audited financial statements for the year ended 31 March 2007.

### Principal activity

In the period to 28 September 2006 the company continued to manage its investments, principally cash deposits, and to continue to tidy up any outstanding matters from its previous trading. On 28 September 2006, the company purchased the entire share capital of Community Foods (Holdings) Limited. Since that date the principal activity has been the merchandising of food products for retail and manufacture through its trading subsidiary, Community Foods Limited.

The company transferred its registered office to Micross, Brent Terrace, London, NW2 1LT on 18 January 2007 and changed its name from Milk Marque Limited to Community Foods Group Limited on 15 May 2007 to better reflect its future direction.

### Business review

The profit for the year after taxation amounted to £1,063,338 (2006: £792,681). It is not possible to make direct comparisons with the previous year due to the acquisition occurring in mid-year.

The trading subsidiary, Community Foods Limited (CFL), faced tough market conditions during the year, particularly as a result of the weakness of the US Dollar. Prior to our acquisition it entered into a contract to protect the business against a strengthening in the value of the US Dollar in currency markets for a period spanning the year end. Unfortunately the world value of the pound has changed far more than anticipated and the contract, rather than protecting the company, has become a liability that has required the group to make a suitable provision in these accounts (see Accounts Note 16).

As indicators of performance in CFL, revenue in Sterling terms reduced by 5.1% (2006: 21.7% growth) and with the challenging market conditions, a gross margin of 12.2% (2006: 13.8%) was achieved. Profits before tax amounted to £2.8m (2006: £3.4m).

Other key performance indicators for CFL were:

	<b>Year ended 31 March 2007</b>	Year ended 2 April 2006
Debt cover This divides borrowings by EBITDA (earnings before exceptional costs, interest, tax, depreciation and amortisation).	<b>1.7</b>	1.4
Interest cover This divides EBITDA by net interest paid	<b>6.9</b>	11.2

These KPIs show that the CFL business has a strong asset base and is consequently less reliant on outside finance and generates profits that cover interest payments many times.

The directors believe that the company, as one of the leaders in the organic and wholefood sectors, is strategically placed to take advantage of the current consumer interest in healthy eating. Opportunities to expand sales of existing products and develop new products are being pursued in the context of maintaining reasonable margins.

In the early stages of the development of the new company, the directors are not recommending the payment of a dividend.

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### **Directors**

The directors as at 31 March 2007 were as follows:

Roger Evans OBE (Chairman)  
Malcolm Groat  
Bill Henry (appointed 28 September 2006)  
David Lewis  
Tim Powell (appointed 28 September 2006)  
Peter Woodhams (appointed 28 September 2006)

Finn Christensen resigned on 3 October 2007.

John Gibson was appointed as non-executive director on 3 October 2007.

### **Financial risk management objectives and policies**

The group uses various financial instruments to manage working capital which include cash, trade debtors and trade creditors that arise directly from its operations. The existence of these financial instruments exposes the group to a number of financial risks, which are described in more detail below.

The main risks arising from the group's financial instruments are currency risk, credit risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

#### **Currency risk**

The group is exposed to translation and transaction foreign exchange risk.

Approximately 47% of the group's purchases of stock are transacted in US dollars. The group enters into forward exchange contracts with its bankers in order to protect the business against adverse currency movements in both £/USD and other currency pairings.

As mentioned above these arrangements have not always protected the business in the way expected and as a result this year a provision was required. The method of hedging against forward currency exchange movements has therefore been changed to better manage the risk.

The group's financial liabilities in currencies other than sterling at 31 March 2007 amounted to £1,126,794. Foreign exchange differences on retranslation of these liabilities are taken to the profit and loss account of the group.

#### **Credit risk**

The group's principal financial assets are cash and trade debtors. The credit risk associated with cash is negligible as the deposit takers have high credit ratings assigned by international credit-rating agencies.

The principal credit risk arises, therefore, from trade debtors. In order to manage this element of credit risk the management set limits for customers based on a combination of payment history and third party credit references. Credit limits are reviewed by the financial controller on a regular basis in conjunction with debt ageing and collection history.

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### **Liquidity risk**

The group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

The group's policy throughout the year has been to achieve this objective through management's day to day involvement in business decisions.

### **Statement of directors' responsibilities**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 group and of the profit or loss of the group for that period. In preparing these 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 United Kingdom 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 group will continue in business.

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group 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.

### **Auditors**

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with Section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD

John Sherwood  
Secretary  
5 December 2007