

REPORT AND FINANCIAL STATEMENTS 1997

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OFFICERS AND PROFESSIONAL ADVISERS

REGISTERED OFFICE: The Manor House
Causeway
Horsham
West Sussex RH12 1HG

DIRECTORS AND TRUSTEES:

Mr P R Davies	(Chairman)
Mr R Forster	
Mr T P Frost	
Mr M A Kay	(deceased 24 March 1997)
Mr P W L Morgan	
Sir Cameron Rusby	
Mr J H C Saxton	(resigned 12 August 1997)
Sir Michael Simmons	
Mr H G Taylor	
Mr L R G Page	(appointed 6 January 1998)

SECRETARY: Mr D W Roberts

CHIEF EXECUTIVE: Dr A J Suckling

GENERAL MANAGER: Mr M P Sharpe

BANKERS: National Westminster Bank plc
48 Carfax
Horsham
West Sussex
RH12 1EJ

AUDITORS: Deloitte & Touche
Chartered Accountants
63 High Street
Crawley
West Sussex
RH10 1BQ

DIRECTORS' AND TRUSTEES' REPORT

The directors and trustees of Freedom Food Limited present their annual report and the audited financial statements for the year ended 31 December 1997.

OBJECTS OF THE COMPANY

Freedom Food Limited is a subsidiary charitable company of the Royal Society for the Prevention of Cruelty to Animals (RSPCA). The primary object of the company is to prevent cruelty to animals by the promotion of humane farming, transportation, marketing and slaughter of farm animals by implementing a set of rearing and handling standards approved from time to time by the RSPCA. Further, the company seeks to promote consumer preference for produce from livestock producers that conform to the RSPCA Freedom Food standards by identifying products with a unique trademark and encouraging retailers to market those products. There have been no major changes to these activities during the year.

ABOUT THE ORGANISATION

Freedom Food Limited is a company limited by shares (registered number 2723670) and the RSPCA is the sole member. The company is also a charity registered by the Charity Commission (registered number 1059879). It is governed by a Memorandum and Articles of Association, the contents of which have been approved by the governing Council of the RSPCA. The company was first incorporated in 1992 and began trading in 1994, and is in the beneficial ownership of the RSPCA. The company became a charity in December 1996.

THE DIRECTORS AND TRUSTEES AND THEIR INTERESTS

At the end of 1997, there were seven directors of the company. Since Freedom Food Limited is also a charitable company, these seven directors are also trustees of the charity. The Memorandum requires that the trustees of the parent organisation, the RSPCA, nominate three of their number, ex-officio, as directors of Freedom Food Limited. The Chairman and Vice-Chairman of Council and a member of the Society's Budgetary Control Committee (now called Finance and Resources Committee) fill these positions. The Director General of the Society is also an ex-officio director and trustee. The remaining four directors have been

appointed to the Board of directors of the company because of their particular experience and their appointment has been ratified by the Council of the RSPCA.

The present membership of the Board of Freedom Food Limited is set out on page 1 of this report. All directors served throughout the year except where noted. The directors have no interest in the ordinary shares of the company. The directors and trustees listed below, who held office at the balance sheet date or resigned during 1997 as indicated on page 1, were also members of the Council of the RSPCA, the company's ultimate parent entity.

Mr R Forster
Mr J H C Saxton
Mr H G Taylor

ACTIVITIES DURING 1997

The trustees are pleased to report that, during 1997, well over 800 new producers, hauliers and abattoirs were accredited through the Freedom Food scheme in accordance with the relevant RSPCA Freedom Food welfare standards. The total number of scheme members was over 2000 at the end of 1997, up from 1200 a year ago. Freedom Food species standards for broiler chickens; turkeys; pigs; laying hens; beef and dairy cattle; and sheep continue to be authorised by the RSPCA for use in conjunction with Freedom Food Ltd.

At the year end, product availability had risen to over 200 lines available in some 3000 retail outlets, up from 2000 outlets a year ago. Over 12 million animals were within the scheme at the end of 1997, compared with 1 million at the end of 1994, 5 million at the end of 1995 and 11 million at the end of 1996. The level of activity of the company has increased during the year as reflected in a doubling of the total fee and charge income over the 1996 level.

The trustees are pleased to report that sales of eggs continued to expand and have now reached over 50 million per month and Tesco, the Co-op, Somerfield, Asda and Safeway continue to promote higher welfare standards through Freedom Food in their stores. Royalty payments, derived from goods sold by these retailers, increased four-fold from the 1996 receipts. Levy payments increased by 72%.

The activities of the company were undertaken, at the year end, by eleven full-time and three part-time staff, of whom five full-time and three part-time staff members carried out the assessment visits on the basis of which accreditation is granted if the applicant conforms to the relevant Freedom Food standards. The number of assessment visits increased by 100% in value during the year (see note 2 to the accounts), with approximately 300 assessment visits per month made in the last

quarter of the year. Each of these staff members is 'home-based', travels long distances and requires a company vehicle to carry out their work.

The management, promotion and administration of the company's activities is carried out at the registered office. Two members of staff develop the company's relationships with retailers and scheme members, and promote the concept of the Freedom Food scheme generally by encouraging consumer awareness. During the year a veterinary surgeon was appointed as technical manager, and an accountant was appointed as financial controller. The general administration of the company is carried out by a further three staff members.

RESULTS

Due to the continued expansion of the Freedom Food scheme the results for 1997 show a net income of £73,578 as against £509,259 in 1996. The loan waiver from the RSPCA in 1996 contributed £541,028 towards the 1996 results.

Total fees and charge income rose by 110% from 1996. Assessment income rose by 100%, reflecting the increased level of producer interest in the scheme, while levy and royalty income by 123% due to the expansion of the retailer market. The cost base has also increased with additional manpower to make assessments and manage the scheme.

The surplus of income over expenditure in respect of continuing operations was £73,578 but the net cost to the RSPCA was £547,854. The unit cost to the RSPCA per animal to benefit was therefore about 5p.

The charity's assets are available and adequate to fulfill the obligations of the charity.

RSPCA SUPPORT

This support is essential for the continuing effectiveness of the Freedom Food scheme, and the RSPCA staff and Freedom Food staff work closely in managing the most effective implementation of the project. The RSPCA provides this staff resource without charge, together with assistance in personnel and financial management. The RSPCA also demonstrates support for the scheme by providing premises and utilities free of charge, and has agreed to pay for advertising and public relations activities as agreed between the company and the RSPCA. In 1997 the grants received are noted on the statement of financial activity and amounted to nearly £548,000. For 1998, the RSPCA will provide grants to a maximum of £737,000. Freedom Food Limited is not dependent on the services

of volunteers in accomplishing its work although RSPCA volunteers support the promotion of the scheme at the local level. The progress of the scheme is noted in the RSPCA trustees' report for 1997.

FUTURE PROSPECTS

The trustees look forward to another year of growth in 1998. The scheme has again attracted strong national support and international interest. At the end of 1998 it is estimated that over 13 million animals will be within the scheme and these animals will have been associated with a total of some 3000 accredited scheme members. At least one further multiple retailer is expected to join the scheme in 1998 - and potentially more, together with the catering wholesalers that supply specialist food service operations. In addition, manufacturers of added value 'convenience' products have commenced supplying retail and catering markets. It is envisaged that the RSPCA will commence development of Freedom Food standards for further species during 1998. However, the expected further growth of Freedom Food relies on the progress made in bringing more animals into the scheme under the standards currently in place. Prospects are encouraging in this respect, promising the improved welfare of millions of animals at a small unit cost. Improved welfare has also been generated because other retail groups and producer organisations have utilised the principle of the RSPCA Freedom Food standards, on which the scheme is based, but have not (yet) themselves joined the scheme. As a result animal welfare has been improved, an outcome the trustees value as a non-financial benefit of operating the Freedom Food Scheme.

As noted in last year's report, the continued expansion of the scheme will mean that while more animals will benefit from better welfare, a further increase in staff numbers will be needed to service the steadily increasing level of activity. The trustees have budgeted for the appointment of a commercial manager (who will also act as deputy general manager), a compliance manager, three more field-based assessors, together with additional assistance in marketing and in office administration. The trustees have also budgeted for a professional review of the systems used in the Freedom Food accreditation scheme with a view to bringing the company to the relevant ISO or EN standard for accreditation schemes as soon as possible. The trustees are satisfied that, with RSPCA support, the company will generate sufficient income to cover foreseen cash needs through 1998.

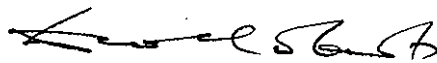
DIRECTORS' AND OFFICERS' LIABILITY

Directors' and officers' liability insurance has been purchased by the company during the year.

AUDITORS

A resolution to reappoint Deloitte & Touche as auditors will be proposed at the forthcoming Annual General Meeting.

Approved by the Trustees and Board of Directors
of Freedom Food Limited and signed on behalf of the Board



D W Roberts
Secretary

13 August 1998

DIRECTORS' AND TRUSTEES' STATEMENT OF RESPONSIBILITIES

Company law requires the directors of a charitable company (namely the trustees) to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the charitable company as at the end of the financial year and of the incoming resources and application of resources of the company for that period. In preparing those financial statements, the trustees 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 charitable company will continue in business.

The trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the charitable company and which enables them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the charitable company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS' REPORT TO THE MEMBERS OF FREEDOM FOOD LIMITED

We have audited the financial statements on pages 9 to 19 which have been prepared under the accounting policies set out on page 13.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 7 the directors (who also act as trustees for the charitable activities of Freedom Food Limited) 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 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 charitable 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 as to whether 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 charitable company's state of affairs as at 31 December 1997 and of its incoming resources and application of resources, including the income and expenditure of the charitable company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors

24 September
20 August 1998
Dr.

63 High Street
Crawley
West Sussex
RH10 1BQ

STATEMENT OF FINANCIAL ACTIVITIES

Year ended 31 December 1997

	Note	1997 £	1996 £
INCOME AND EXPENDITURE			
Incoming Resources		311	698
Sale of goods	2	396,171	188,660
Fees and charges		89	128
Contributions and donations		1,380	3,658
Investment income	6	547,854	449,800
Grants received	8	-	541,028
Exceptional income			
		<hr/>	<hr/>
TOTAL INCOMING RESOURCES		945,805	1,183,972
		<hr/>	<hr/>
Resources Expended		1,393	634
Cost of sales		183,525	83,102
Assessment costs		451,827	438,639
Marketing and publicity	3	234,595	152,338
Management and administration	9	887	-
Corporation Tax			
		<hr/>	<hr/>
TOTAL RESOURCES EXPENDED		872,227	674,713
		<hr/>	<hr/>
Net movement in funds		73,578	509,259
Balance brought forward 1 January 1997		67,905	(441,354)
		<hr/>	<hr/>
Balance carried forward 31 December 1997		141,483	67,905
		<hr/>	<hr/>

INCOME AND EXPENDITURE ACCOUNT

Year ended 31 December 1997

	Note	1997 £	1996 £
Gross income from continuing operations		945,805	642,944
Exceptional income	8	-	541,028
<hr/>			
Net income from continuing operations		945,805	1,183,972
Total expenditure from continuing operations		872,227	674,713
<hr/>			
NET INCOME FOR THE YEAR		73,578	509,259
<hr/>			

- All activities of the company are continuing.
- There are no recognised gains and losses for the current financial year and preceding financial year other than as stated in the income and expenditure account.
- A detailed analysis of income by source is provided by the Statement of Financial Activities.
- The income and expenditure account is derived from the statement of financial activities on page 9 which together with the notes to the accounts on pages 13 to 19 provides full information of the movements during the year.
- All income has been generated from charitable trading activities.
- All funds are unrestricted

**COMBINED RECONCILIATION OF MOVEMENT IN SHAREHOLDERS'
FUNDS AND STATEMENT OF MOVEMENT IN CAPITAL FUNDS
Year ended 31 December 1997**

	Issued share capital £	Unrestricted fund £	Total 1997 £	Total 1996 £
At beginning of year	2	67,903	67,905	(441,354)
Retained profit for the financial year	-	73,578	73,578	509,259
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	2	141,481	141,483	67,905
	<hr/>	<hr/>	<hr/>	<hr/>

BALANCE SHEET
31 December 1997

	Note	£	1997 £	£	1996 £
FIXED ASSETS					
Tangible assets	10		50,044		16,189
CURRENT ASSETS					
Debtors	11	151,044		75,966	
Cash at bank and in hand		45,748		90,738	
			<u>196,792</u>	<u>166,704</u>	
CREDITORS: amounts falling due within one year	12	105,353		114,988	
			<u>91,439</u>	<u>51,716</u>	
NET CURRENT ASSETS					
			<u>141,483</u>	<u>67,905</u>	
TOTAL ASSETS LESS CURRENT LIABILITIES					
			<u>141,483</u>	<u>67,905</u>	
CAPITAL FUNDS					
Called up share capital	13		2		2
Unrestricted funds			141,481		67,903
			<u>141,483</u>	<u>67,905</u>	
TOTAL EQUITY SHAREHOLDERS' FUNDS			<u>141,483</u>	<u>67,905</u>	

13 AUGUST 1998

The financial statements were approved by the Board of Directors on ~~9 April 1998~~

Signed on behalf of the Board of Directors



P R Davies
Director and Chairman of the Board

The notes on pages 13 to 19 form part of these accounts.

NOTES TO THE ACCOUNTS

Year ended 31 December 1997

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with the Statement of Recommended Practice "SORP" - Accounting by Charities. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention. Following a confirmation received from the Council of the RSPCA regarding the future financial support of the company the directors are of the opinion that the accounts should be prepared on a going concern basis.

Tangible fixed assets

Fixed assets are capitalised at cost. Provision is made for depreciation on a straight line basis over the useful economic life of each asset. The useful economic lives have been assessed as follows :

Motor vehicles	3 years
Computer equipment	3 years

Grant income

Grant income is accounted for on an accruals basis.

Funds

There were no restricted funds during the year.

Pension costs

Pension cost charges represent contributions made to the RSPCA Pension Scheme and also contributions made to the personal pension plan of one employee.

NOTES TO THE ACCOUNTS (continued)
Year ended 31 December 1997

2. INCOMING RESOURCES	1997	1996
	£	£
Fees and charges		
Assessment	163,033	81,642
Levy	123,424	71,921
Royalty	83,779	20,901
Other	25,935	14,196
	<hr/>	<hr/>
	396,171	188,660
	<hr/>	<hr/>

All income from trading activities of the charity are permissible within the charity's objectives.

3. RESOURCES EXPENDED	1997	1996
	£	£
Management and Administration		
Salaries and office costs	224,452	105,327
Legal and professional	5,635	8,914
Audit remuneration	3,188	5,000
Accountancy	1,000	1,218
Loan interest	-	30,870
Reimbursement of directors' expenses	320	1,009
	<hr/>	<hr/>
	234,595	152,338
	<hr/>	<hr/>

Expenses were reimbursed in the year for two directors.

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Directors received no remuneration during the year (1996 - £nil)

	1997	1996
	No.	No.
Average Number of persons employed		
Sales and operations	8	5
Administration	3	2
	<hr/>	<hr/>
	11	7
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS (continued)
Year ended 31 December 1997

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (Continued)

	1997 £	1996 £
Staff costs during the year		
Wages and salaries	233,332	147,284
Social security costs	19,463	12,953
Pension costs	12,212	8,970
	<u>265,007</u>	<u>169,207</u>

The emoluments of higher paid staff within the following scales were:

	1997 No.	1996 No.
£40,000 - £49,999	-	1
£50,000 - £59,999	1	-
	<u>1</u>	<u>-</u>

Emoluments include salary and benefits in kind but exclude pension scheme contributions.

5. DEFINED BENEFIT PENSION SCHEME

Retirement benefits to certain employees of the company are provided through the RSPCA Pension Scheme. The assets of the defined benefits scheme are held separately from those of the company and RSPCA. The pension contribution to the RSPCA Scheme in the year amounted to £9,921 (1996 - £6,748). The RSPCA Pension Scheme was most recently valued on 31 March 1997 by qualified actuaries, Bacon & Woodrow. Results of the most recent valuation can be found in the RSPCA financial statements for the year ended 31 December 1997.

6. GRANTS RECEIVED

	1997 £	1996 £
Grant income from RSPCA	547,854	449,800
	<u>547,854</u>	<u>449,800</u>

Grant income is paid by the RSPCA to Freedom Food Limited to support the charitable company's activities.

NOTES TO THE ACCOUNTS (continued)
Year ended 31 December 1997

7. INTEREST PAYABLE AND SIMILAR CHARGES

	1997 £	1996 £
Bank loans, overdrafts and other loans repayable within five years	-	30,870
	<u> </u>	<u> </u>

On 20 December 1996 interest on loans owed to the RSPCA was waived following the conversion of Freedom Food Limited to charitable status.

8. EXCEPTIONAL INCOME

	1997 £	1996 £
Loan Waiver	-	541,028
	<u> </u>	<u> </u>

On 20 December 1996 loans and accumulated interest owed to the RSPCA amounting to £541,028 were waived following the conversion of Freedom Food Limited to charitable status.

9 TAX ON ORDINARY ACTIVITIES

	1997 £	1996 £
United Kingdom corporation tax at 23% (1996-24%) based on the loss for the year	-	-
Adjustment in respect of prior periods	887	-
	<u> </u>	<u> </u>

The charity's activities are exempt from taxation under Section 505 of the Income and Corporation Taxes Act 1988 with effect from the start of the current period.

However, a small tax charge arises in relation to a prior period.

NOTES TO THE ACCOUNTS (continued)
Year ended 31 December 1997

10. TANGIBLE FIXED ASSETS

	Motor vehicles £	Equipment £	Total £
Cost			
At 1 January 1997	30,694	4,701	35,395
Additions	47,863	1,261	49,124
Disposals	(9,176)	-	(9,176)
	<hr/>	<hr/>	<hr/>
31 December 1997	69,381	5,962	75,343
	<hr/>	<hr/>	<hr/>
Accumulated depreciation			
At 1 January 1997	15,302	3,904	19,206
Charge for the year	13,532	976	14,507
Disposals	(8,414)	-	(8,414)
	<hr/>	<hr/>	<hr/>
At 31 December 1997	20,420	4,880	25,299
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 December 1997	48,961	1,082	50,044
	<hr/>	<hr/>	<hr/>
At 31 December 1996	15,392	797	16,189
	<hr/>	<hr/>	<hr/>

11. DEBTORS

	1997 £	1996 £
Trade debtors	81,321	32,690
Accrued income	69,069	16,000
Other debtors	654	27,276
	<hr/>	<hr/>
	151,044	75,966
	<hr/>	<hr/>

All debtors are recoverable within one year.

NOTES TO THE ACCOUNTS (continued)
Year ended 31 December 1997

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1997	1996
	£	£
Trade creditors	13,469	32,927
Amounts owed to the RSPCA	91,884	82,061
	<u>105,353</u>	<u>114,988</u>

13. CALLED UP SHARE CAPITAL

	1997	1996
	£	£
Authorised 100 ordinary shares of £1 each	<u>100</u>	<u>100</u>
Called up, allotted and fully paid 2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

14. FINANCIAL COMMITMENTS

There are no capital commitments contracted for at the year end (1996 - £nil).

15. ULTIMATE PARENT ENTITY AND CONTROLLING ENTITY

The company's ultimate parent and controlling entity is the Royal Society for the Prevention of Cruelty to Animals ("RSPCA"), a registered charity in Great Britain. Copies of consolidated accounts are available from RSPCA, Causeway, Horsham, West Sussex, RH12 1HG.

During the year various services have been provided to the company by the RSPCA for which no charge has been made.

NOTES TO THE ACCOUNTS (continued)
Year ended 31 December 1997

16. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption in FRS8 "Related Party Transactions" extended to subsidiary undertakings 90% or more of whose voting rights are controlled within a group, where the consolidated financial statements of the group are publicly available. Accordingly no disclosure has been made of transactions with entities that are part of the group, or investees of the group qualifying as related parties.

17. FUTURE FUNDING SUPPORT

On 29 April 1998 the RSPCA confirmed by letter to the directors that financial support would continue to be given to Freedom Food Limited for at least 12 months commencing from that date.