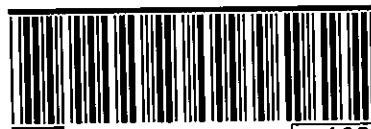

HORTICULTURE RESEARCH INTERNATIONAL

(A COMPANY LIMITED BY GUARANTEE)

REPORT AND FINANCIAL STATEMENTS

◆ *Year ended 31 March 1998* ◆

COMPANY NO: 173485
CHARITY REGISTRATION NO: 211581



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COMPANIES HOUSE 15/10/98

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COMPANY INFORMATION

Board of Directors

Current members

Mr P J Siddall (Chairman) (appointed 14 January 1998)
Dr A R Burne (Acting Chairman from 24 October 1997 to 13 January 1998) (appointed 25 July 1997)
Professor J A Callow
Professor T J Flowers
Professor J C Gray (appointed 30 July 1997)
Mr M G Holmes
Mr A G Jeffries (appointed 25 July 1997)
Mr D J Piccaver (appointed 25 July 1997)
Dr R F Pugh
Mr M W Rowe (appointed 25 July 1997)

Previous members

Mr J F Valentine (previous Chairman) (appointed 25 July 1997) (resigned 24 October 1997)
Mr G Terry Pryce, CBE (previous Chairman) (resigned 25 July 1997)
Mrs V A Boakes (resigned 25 July 1997)
Professor D Boulter, CBE (resigned 25 July 1997)
Dr P J Bunyan (resigned 25 July 1997)
Mr A P Mitchell, CBE (resigned 25 July 1997)

Chief Executive

Professor C C Payne, OBE

Secretary

Mr T G J Heller

Registered office

Wellesbourne
Warwickshire
CV35 9EF

Auditors

Robson Rhodes
Birmingham

Bankers

The Royal Bank of Scotland plc
Birmingham

Solicitors

Dibb Lupton Allsop
Birmingham

REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements for the year ended 31 March 1998.

Status and principal activities of the Company

The Company is limited by Guarantee and has charitable status. It is an Executive Non-Departmental Public Body operating towards Next Steps lines, sponsored by the Ministry of Agriculture, Fisheries and Food (MAFF) and regulated by a Management Statement agreed with MAFF. HRI's purpose is to carry out research and development (R&D) work in support of horticulture and related industries and to exploit the results commercially. The Company is managed by a Chief Executive who reports to a non-executive Board of Directors.

Business performance and corporate strategy

The total income for 1997/98 rose in comparison with the previous year by 2.5% before amortisation of capital grants, having absorbed a reduction in MAFF commissioned research of £689k. The impact of the reduction in MAFF commission was offset by success in gaining an additional £272k of MAFF Open Competition and LINK research contracts. Income from Levy bodies and commercial contracts continued to rise while there was a fall in EU funding.

MAFF invested £1,652k during the year in HRI's restructuring building programme, which has been ongoing since 1992, and was completed in 1997/98 at a total cost in excess of £44m.

A visiting Group to HRI reported its findings early in 1998. The review provided some clear guidance on BBSRC's expectations of HRI over the next four years. As a result of the review, HRI's funding from BBSRC has been reduced by £600k phased over four years (£150k per annum) starting in 1998/99. This reflects HRI's overall performance in the review and its different role from BBSRC-sponsored institutes, with its emphasis on applied research, product development and technology transfer to address users' specific practical problems.

Following extensive review of the potential privatisation and rationalisation of public sector research between 1994 and 1997 it was confirmed that HRI should remain in the public sector. HRI's Board of Directors has reviewed the future strategy of the organisation and a new five-year Corporate Plan (1998-2003) will be published in 1998. The development of the Plan has involved staff and directors within HRI and has also benefited from the expertise of consultants from Coopers and Lybrand.

HRI's mission is "to innovate and communicate for the benefit of consumers and producers of horticultural and other plant based products". HRI's future strategy recognises the need to build a strong commercial business to offset the decline in public-sector funding for R&D. A Sales and Marketing Director has been appointed from the commercial sector to drive the exploitation of intellectual property and services and to develop new areas of business. HRI is now actively developing this business under the registered trademark 'HortiTech'.

Performance against targets

HRI is currently finalising its next Corporate Plan (1998-2003). The most recent HRI Corporate Plan was prepared in 1995 to cover the period 1995-2000. This Plan included the selected targets that are detailed below, to which a summary of progress has been added.

REPORT OF THE DIRECTORS - (Continued)

Between 1995 and 1997 HRI, together with many other public sector research establishments, went through a prolonged process of review on the subject of potential privatisation. The sponsor department concluded that it would not be necessary to HRI to submit a new Corporate Plan until the review process was completed.

HRI's progress during the year towards certain specific targets set out in the 1995-2000 Corporate Plan was as follows:

1. To improve further the achievement of the objectives of the contracted R&D programmes during 1995 by:
 - ensuring that all contract reports are completed on time.
 - ensuring that all project milestones are achieved or that any problems are brought to the attention of the customer at the earliest opportunity.

Progress: In 1998 more than 90% of all contract reports were submitted by the due date. All milestones were achieved or early notification given.

2. To draw up a long-term strategic plan for HRI's basic science programme during 1995 and to increase HRI's funding for basic and underpinning science from 14% to 20% of total R&D income by the year 2000.

Progress: A new science strategy was established in 1997.

3. To achieve harmonisation of terms and conditions of employment for MAFF, BBSRC and HRI employees by 1 April 1996.

Progress: Non-industrial employees harmonised in May 1997.

4. To strengthen links with relevant sectors of the industry.

Progress: A co-ordinated annual programme of about 100 subject days and workshops is now provided for growers and other customers. A Mushroom Advice Centre has been established.

The directors monitor the performance of the Company against budget and significant variations compared to budget and the key financial indicators of the Company are considered at Board meetings. The financial performance of the Company in 1997/98 against the budget is set out in the table below:

	Budget £'000	Actual £'000
Income	23,502	24,155
Expenditure		
Staff costs	(13,744)	(14,082)
Other costs	(9,536)	(9,916)
Surplus	<u>222</u>	<u>157</u>

REPORT OF THE DIRECTORS - (Continued)

The auditors have reviewed the values shown above to confirm that they are consistent with the Company's books and records.

Results

The results for the year are set out on page 8.

Fixed assets

Movements in tangible fixed assets are set out in note 7 to the financial statements.

Directors

The directors at the date of this report and changes during the period are set out on page 1.

Employees

During the year the Company has continued to provide employees with relevant information and to seek their views on matters of common concern through their representatives and through line managers. Priority is given to ensuring that employees are aware of all significant matters affecting the Company's position and of any significant organisational changes.

The Company is aware of its statutory duty to support the employment of disabled persons where possible, both in recruitment and by retention of employees who become disabled whilst in the employment of the Company, as well as generally through training and career development.

The Company is an equal opportunities employer.

Year 2000

Many of the world's computer systems store only the last two digits of the year and need to be adapted to cope correctly with the year 2000. The Board receives regular reports from our year 2000 project team which was tasked with identifying and managing the principal risks to our business and operations. Substantial internal time has already been spent on this issue and further significant time is expected to be required. Ignoring internal time, the estimated costs of year 2000 issues is approximately £400,000. Most of that sum will be treated as exceptional revenue expenditure and will be recorded as incurred during the next two years.

Having made enquiries of suppliers, customers and staff, the Board do not expect material disruption to our business from the year 2000 problem but the complexity of the matter prevents any business offering absolute assurance on this issue.

Single European currency

The Company's accounting system will be capable of accommodating the euro regardless of which countries participate in the single currency.

REPORT OF THE DIRECTORS - (Continued)

Payment of creditors

It is the Company's policy that payment to suppliers is made in accordance with the terms and conditions under which the business transactions with the suppliers are conducted, providing the supplier is complying with all terms and conditions.

The Company's trade creditors at 31 March 1998 were equivalent to 58 days (1997 - 65 days) of purchases.

Citizens Charter and Open Government

The Company does not provide services directly to the public. It conducts its business on a customer/contractor relationship, voluntarily entered into by both parties.

Access to Government Information

HRI is not within the jurisdiction of the Parliamentary Commissioner for Administration (PCA). Its policies and objectives are set out in its Corporate Plan with results being made available in its Annual Report.

Directors' responsibilities for the financial statements

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 these financial statements, the directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- followed applicable accounting standards and the Statement of Recommended Practice, Accounting by Charities, and;
- prepared the accounts on the going concern basis.

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

Under the Management Statement of the Company, the accounting officer of the Company (who is the Chief Executive) is responsible to the Accounting Officer of the Ministry of Agriculture, Fisheries and Food and accountable to Parliament for the proper and effective management of all public funds spent with the Company.

REPORT OF THE DIRECTORS - (Continued)

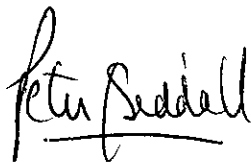
Auditors

The auditors, Robson Rhodes are willing to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

Approval

The report of the directors was approved by the Board on 23 September 1998 and signed on its behalf by:

P J Siddall
Chairman

A handwritten signature in cursive script, appearing to read "Peter J. Siddall", written over a horizontal line.

**REPORT OF THE AUDITORS
TO THE MEMBERS OF HORTICULTURE RESEARCH INTERNATIONAL**

We have audited the financial statements on pages 8 to 21 which have been prepared on the basis of the accounting policies set out on pages 11 to 13.

Respective responsibilities of directors and auditors

As described on page 5 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 financial 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 accounts, 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.

Fundamental uncertainty

In forming our opinion, we have considered the adequacies of the disclosures made in note 5 e) of the financial statements concerning the current uncertainty as to whether the pension provision of £4.16m will crystallise and be funded. In view of the significance of this uncertainty we consider it should be brought to your attention but our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 March 1998 and of its surplus for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Robson Rhodes
Chartered Accountants and Registered Auditor

Birmingham

23 September 1998

HORTICULTURE RESEARCH INTERNATIONAL

STATEMENT OF FINANCIAL ACTIVITIES year ended 31 March 1998

	Note	1998 £'000	1997 £'000
Income and Expenditure			
Incoming Resources			
	2		
Commission from MAFF		9,874	10,563
Grant in aid from the BBSRC		3,692	3,591
Commercial contracts research income:			
MAFF open and link contracts		2,429	2,157
Other		5,436	4,770
Other receipts		1,372	1,163
Amortisation of capital grants		1,352	1,442
		24,155	23,686
Resources Expended			
	3		
Direct charitable expenditure		22,536	21,380
Management and administration		1,462	1,577
		23,998	22,957
Net Incoming resources for the year	4	157	729
Fund balances brought forward at 1 April 1997			
Reserve fund		1,713	1,521
Accumulated surpluses		710	173
Fund balances carried forward at 31 March 1998			
Reserve fund	15	1,870	1,713
Accumulated surpluses	16	710	710

Supplementary notes

- 1 The Company's results for the year relate entirely to continuing operations.
- 2 The Company made no recognised gains or losses during the year other than the surplus as reported above.

HORTICULTURE RESEARCH INTERNATIONAL

BALANCE SHEET at 31 March 1998

	Note	1998 £'000	1997 £'000
Fixed assets			
Tangible assets	7	46,564	45,459
Investments	8	-	-
		<u>46,564</u>	<u>45,459</u>
Current assets			
Stocks	9	371	471
Debtors	10	4,045	6,114
Cash at bank and in hand		3,214	1,886
		<u>7,630</u>	<u>8,471</u>
Creditors: Amounts falling due within one year	11	(3,339)	(4,669)
		<u>4,291</u>	<u>3,802</u>
Net current assets			
Capital grants: Amounts to be amortised within one year	12	(1,350)	(1,450)
		<u>2,941</u>	<u>2,352</u>
Total assets less current liabilities		<u>49,505</u>	<u>47,811</u>
Capital grants: Amounts to be amortised after more than one year	12	(42,468)	(41,918)
Provisions for liabilities and charges			
Pensions reserve fund	13	(4,157)	(3,170)
Other provisions	13	(300)	(300)
		<u>2,580</u>	<u>2,423</u>
Income funds			
Reserve fund	15	1,870	1,713
Accumulated surpluses	16	710	710
		<u>2,580</u>	<u>2,423</u>

The financial statements were approved by the Board on 23 September 1998 and signed on its behalf by:

P J Siddall

- Chairman

C C Payne

- Chief Executive

HORTICULTURE RESEARCH INTERNATIONAL

CASH FLOW STATEMENT

year ended 31 March 1998

	1998 £'000	1997 £'000
Net cash inflow from operating activities	2,657	573
Returns on investments and servicing of finance		
Interest received	148	95
Capital expenditure and financial investment		
Payments for tangible fixed assets	(3,042)	(6,511)
Receipts from sale of tangible fixed assets	-	18
Cashflow before financing	<u>(237)</u>	<u>(5,825)</u>
Financing		
Capital grants received	1,565	4,634
Increase/(decrease) in cash	<u>1,328</u>	<u>(1,191)</u>

NET CASH INFLOW FROM OPERATING ACTIVITIES

Reconciliation of net incoming resources for the year to net cash inflow from operating activities

Net cash inflow for the year	157	729
Depreciation	1,937	1,968
Amortisation of capital grants	(1,352)	(1,442)
Profit on sale of tangible fixed assets	-	(18)
Pension provisions and net transfers	1,000	761
Pensions paid	(13)	(12)
Capital grants receivable	237	1,250
Interest receivable	(148)	(95)
Decrease/(increase) in stocks	100	(8)
Decrease/(increase) in debtors	2,069	(742)
Decrease in creditors	(1,330)	(1,818)
Net cash inflow from operating activities	<u>2,657</u>	<u>573</u>

NOTES TO THE FINANCIAL STATEMENTS

31 March 1998

1. ACCOUNTING POLICIES

Convention

The financial statements are prepared under the historical cost convention in accordance with applicable accounting standards and the Statement of Recommended Practice, Accounting by Charities. The Company is an Executive Non Departmental Public Body sponsored by the Ministry of Agriculture of Fisheries and Food (MAFF).

MAFF has a significant influence on the results and financial position of the Company in that the Company receives significant income from MAFF (via commission and commercial contracts) and also has access to other resources provided by MAFF including:

- people employed by MAFF but working for HRI.
- lease of land which HRI operate their sites from.
- general funding support as the sponsoring body.

The requirements of the Treasury Guidance paper titled 'Annual reports and accounts guidance for Executive Non-Departmental Public bodies' are reflected by way of additional primary statements and notes which are set out on pages 24 to 27.

Basis of preparation

The format of the financial statements has been adapted from that laid down in Part 1 of Schedule 4 to the Companies Act 1985 to suit the circumstances of the Company as permitted by paragraph 3(3) of that Schedule.

Income

Grants receivable from the Biotechnology and Biological Sciences Research Council (BBSRC) and the Commission from the Ministry of Agriculture, Fisheries and Food (MAFF) are recognised in the statement of financial activities as received, exclusive of any relevant value added tax.

Research income from these and other bodies consists of the invoiced value (excluding value added tax) for work undertaken during the year. Income arising on long term contracts is recognised on the basis of the sales value of work performed in the year.

Income from sales of produce, publications and sundry items consists of amounts invoiced during the year, excluding value added tax.

Long term contracts

Long term contracts are those extending in excess of 12 months and any of a shorter duration in progress at 31 March which are material to the activity of the period. Attributable income is recognised proportionate to the percentage of completion of each contract. Immediate provision is made for all foreseeable losses if a contract is assessed as unprofitable.

NOTES TO THE FINANCIAL STATEMENTS

31 March 1998

1. ACCOUNTING POLICIES (Continued)

Expenditure

Expenditure is charged to the income and expenditure account as goods and services are received. The charge includes value added tax attributable to the expenditure, to the extent that value added tax is not reclaimable by the Company.

Tangible fixed assets and depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write-off the cost (less any estimated residual value) of each asset evenly over its expected useful life, as follows:

Additions to leasehold land and buildings	-	over 50 years
Plant and machinery, fixtures and fittings	-	over 3-8 years

Government grants

Government grants receivable for capital expenditure are credited to unamortised Capital Grants account and released to the income and expenditure account over the expected useful lives of the relevant assets.

Grants of a revenue nature are credited to income in the year to which they relate.

Stocks

Stocks are stated at the lower of cost and net realisable value as follows:

Cost incurred in bringing each item to its present location and condition.

Raw materials and consumables	-	purchase cost on a first-in, first-out basis
Growing crops	-	cost of direct materials and labour plus attributable overheads by using standard industry rates

Net realisable value is based on the estimated selling prices, less further costs expected to be incurred to completion and disposal.

Pensions

Superannuation benefits are provided for eligible employees of BBSRC on attachment to the Company under a scheme administered and financed by the BBSRC. Benefits for eligible employees of the MAFF on attachment to the Company are provided under the Principal Civil Service Pension Scheme. The Company paid an actuarially assessed Superannuation contribution of 13.6% for all attached employees, to both these schemes. The costs for the year are included in Note 5 under Employee costs.

The Company also sets aside in the Pensions reserve fund the same level of superannuation contribution in respect of eligible employees holding contracts of employment with the Company and also accumulates in the Fund any pension transfer values received in respect of these employees, in accordance with Paragraph 31 of the Financial Memorandum to the Company's Management Statement. The actuarial position of the Company liability in respect of this scheme is set out in note 5.

NOTES TO THE FINANCIAL STATEMENTS

31 March 1998

1. ACCOUNTING POLICIES (Continued)

Research and development

Research and development expenditure on externally funded commercial projects is matched with the related income. All other research and development expenditure is written off in the year it is incurred.

Foreign currencies

Assets and liabilities denominated in foreign currency are translated into sterling at the rates of exchange ruling at 31 March. All other currency differences are taken to the profit and loss account.

Taxation

The Company is a registered charity and therefore no corporation tax is payable on the results for the year.

2. INCOMING RESOURCES

	1998 £'000	1997 £'000
Incoming resources by geographical market		
United Kingdom	23,367	22,854
Other EU countries	782	799
Rest of the World	6	33
	<u>24,155</u>	<u>23,686</u>

3. RESOURCES EXPENDED

	Direct charitable expenditure £'000	Management and administration £'000	1998 Total £'000
Employee costs	13,208	874	14,082
General operational costs	7,402	577	7,979
Depreciation	1,926	11	1,937
	<u>22,536</u>	<u>1,462</u>	<u>23,998</u>

NOTES TO THE FINANCIAL STATEMENTS

31 March 1998

3. RESOURCES EXPENDED (Continued)

	Direct charitable expenditure £'000	Management and administration £'000	1997 Total £'000
Employee costs	12,762	895	13,657
General operational costs	6,664	668	7,332
Depreciation	1,954	14	1,968
	<u>21,380</u>	<u>1,577</u>	<u>22,957</u>

4. NET INCOMING RESOURCES FOR THE YEAR

	1998 £'000	1997 £'000
Net incoming resources for the year is stated		
After charging:		
Auditors' remuneration		
Audit services	30	30
Other services	23	12
Directors' remuneration	51	62
Directors' reimbursed expenditure	8	9
Depreciation of tangible fixed assets	1,937	1,968
Operating lease charges		
Plant and machinery	28	46
Land and buildings	697	621
Foreign exchange losses	92	76
	<u> </u>	<u> </u>
And after crediting:		
Amortisation of capital grants	1,352	1,442
Rental income	187	165
Bank interest	148	95
	<u> </u>	<u> </u>

5. EMPLOYEES AND EMPLOYEE COSTS

	1998 Number	1997 Number
a) Average number of persons employed during the year:		
Direct science	335	353
Direct industrial/agricultural	181	164
Direct other support	181	170
Management and administration	24	25
	<u>721</u>	<u>712</u>

NOTES TO THE FINANCIAL STATEMENTS

31 March 1998

5. EMPLOYEES AND EMPLOYEE COSTS - (Continued)

Of the 721 (1997 - 712) staff of the Company, 352 (1997 - 365) are employed by the BBSRC, 77 (1997 - 79) by the Ministry of Agriculture, Fisheries and Food, and 292 (1997 - 268) by the Company.

	1998 £'000	1997 £'000
b) Costs in respect of these staff were:		
Wages and salaries	11,809	11,231
Social security costs	814	817
Superannuation costs	1,489	1,609
	<u>14,112</u>	<u>13,657</u>
c) Chief executive's total remuneration inclusive of superannuation costs	<u>78</u>	<u>76</u>

The Chief Executive is an ordinary member of HRI's pension scheme.

d) The following number of senior employees received remuneration falling within the following ranges:

	Number	Number
£40,001 - £50,000	8	10
£50,001 - £60,000	3	1
	<u> </u>	<u> </u>

e) As stated in note 1, the Company sets aside in the Pensions reserve fund superannuation contributions in respect of eligible employees holding contracts of employment with the Company and also accumulates in the Fund any pension transfer values received in respect of these employees. As at the balance sheet date the liability accrued in the accounts amounted to £4.16m (1997 - £3.17m).

HRI does not maintain an equivalent and dedicated pool of cash and other investments for the purposes of meeting this liability. In the event of HRI being required to pay out the creditor or a significant proportion thereof without provision of additional cash financing from MAFF or other sources it may not be in a position to meet that payment. It is recognised that its ability to do so as well as continuing its core activities to carry our horticultural research and development is ultimately dependent on MAFF as its sponsoring department. The directors are currently discussing this matter with representatives of MAFF.

NOTES TO THE FINANCIAL STATEMENTS

31 March 1998

5. EMPLOYEES AND EMPLOYEE COSTS (Continued)

An actuarial valuation of the Company's liability in respect of Horticulture Research International employees transferring into the Principal Civil Service Pension Scheme at a future date was commissioned as at 31 March 1998. The valuation was performed by the Government Actuary's Department. The results of the current assessment indicate a total estimated accrued pension liability of £4.25m (1997 - £2.87m) in respect of the 292 (1997 - 268) staff employed by the Company at that date. The demographic and economic assumptions used for the purpose of the valuation were based on analyses of the experience of the generality of Civil Servants. The directors do not consider it appropriate on a year on year basis to recognise any surplus or deficit arising on the pension reserve fund that is indicated by the actuarial assessment directly to the accumulated surpluses of the Company if these are not significant in value.

6. DIRECTORS REMUNERATION

	1998 £'000	1997 £'000
Directors' remuneration	51	62
Chairman (and highest paid director)		
From 1 April 1996 to 25 July 1997	6	22
From 25 July 1997 to 24 October 1997	6	-
From 24 October 1997 to 14 January 1998	-	-
From 14 January 1998 to 31 March 1998	5	-

The other directors received remuneration in the following bands:

	Number	Number
£0 - £5,000	12	9

NOTES TO THE FINANCIAL STATEMENTS

31 March 1998

7. TANGIBLE FIXED ASSETS

Tangible fixed assets on a historical cost basis are stated as follows:

	Additions to leasehold land and buildings £'000	Plant and machinery, fixtures and fittings £'000	Total £'000
Cost			
At 1 April 1997	47,834	6,665	54,499
Additions in year at cost	1,953	1,089	3,042
At 31 March 1998	49,787	7,754	57,541
Depreciation			
At 1 April 1997	3,641	5,399	9,040
Charged in year	996	941	1,937
At 31 March 1998	4,637	6,340	10,977
Net book value			
At 31 March 1998	45,150	1,414	46,564
At 31 March 1997	44,193	1,266	45,459

Less than one per cent of total net book value of the tangible fixed assets recorded above relate to the management and administration function.

All land occupied by Horticulture Research International is leased from MAFF and from the East Malling Trust for Horticultural Research for one property. The directors consider that these organisations will renew the leases with the Company upon expiry or will allow the Company to occupy the land as sitting tenants.

8. INVESTMENTS

The following are wholly owned subsidiary companies:

Malling Limited
HRI Limited
Sciencebase Limited

The issued share capital of both Malling Limited and HRI Limited consists of 3 ordinary shares of £1 each. Sciencebase Limited has share capital consisting of 2 ordinary shares of £1 each. Each of these companies is registered in England and Wales and none traded during the year.

NOTES TO THE FINANCIAL STATEMENTS

31 March 1998

9. STOCKS

	1998 £'000	1997 £'000
Raw materials and consumables	327	413
Growing crops	44	58
	<u>371</u>	<u>471</u>

The current or replacement cost of the above stocks would not be significantly different from the values stated.

10. DEBTORS

	1998 £'000	1997 £'000
Trade debtors	2,573	1,895
Amounts recoverable on contracts	746	1,407
Other debtors	466	1,654
Salary deposit	-	956
Prepayments	260	202
	<u>4,045</u>	<u>6,114</u>

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 £'000	1997 £'000
Payments received on account	409	1,127
Trade creditors	1,283	1,311
Other creditors	633	1,421
Accruals and deferred income	1,014	810
	<u>3,339</u>	<u>4,669</u>

HORTICULTURE RESEARCH INTERNATIONAL

NOTES TO THE FINANCIAL STATEMENTS

31 March 1998

12. CAPITAL GRANTS

	1998 £'000	1997 £'000
At 1 April 1997	43,368	38,926
Additions - received and receivable		
MAFF	1,652	5,628
BBSRC	150	256
Amortisation	(1,352)	(1,442)
At 31 March 1998	<u>43,818</u>	<u>43,368</u>
Amounts to be amortised:		
Within one year	1,350	1,450
After more than one year	42,468	41,918
	<u>43,818</u>	<u>43,368</u>

13. PROVISIONS FOR LIABILITIES AND CHARGES

	1998 £'000	1997 £'000
Pensions reserve fund		
At 1 April 1997	3,170	2,421
Provided in the year	818	601
Transfers in	324	292
Transfers out	(142)	(132)
Pensions paid	(13)	(12)
At 31 March 1998	<u>4,157</u>	<u>3,170</u>
Other provisions		
Provision for contract claims		
At 1 April 1997 and 31 March 1998	<u>300</u>	<u>300</u>

14. LIABILITY LIMITED BY GUARANTEE

The Company is limited by the guarantee of the 10 Members, who are also the Directors, to a maximum of £1 each.

NOTES TO THE FINANCIAL STATEMENTS

31 March 1998

15. RESERVE FUND

	1998 £'000	1997 £'000
At 1 April 1997	1,713	1,521
Net incoming resources transferred to reserve fund	157	192
At 31 March 1998	<u>1,870</u>	<u>1,713</u>

Paragraph 31 of the Financial Memorandum to the Company's Management Statement allows the Company to establish a Reserve Fund for the purposes of providing for items of capital expenditure and pension costs expected to be incurred in future years. As a consequence of both the continued postponement of primary legislation in Parliament transferring all employees and pension liabilities into the Principal Civil Service Pension Scheme and the commencement of payment of pensions to retired former employees that part of the Reserve Fund in respect of pension costs is included as a liability (see note 13).

16. ACCUMULATED SURPLUSES

	1998 £'000	1997 £'000
At 1 April 1997	710	173
Surplus transferred to accumulated surpluses	-	537
At 31 March 1998	<u>710</u>	<u>710</u>

17. COMMITMENTS

	1998 £'000	1997 £'000
a) Capital commitments: Contracted for	485	1,500

b) Leasing commitments:

The annual commitments under operating leases are analysed according to the period in which each lease expires, as follows:

NOTES TO THE FINANCIAL STATEMENTS

31 March 1998

17. COMMITMENTS (Continued)

	1998 £'000	1997 £'000
Land and buildings, leases expiring:		
Within one year	268	-
In two to five years	1	273
Beyond five years	344	348
	<hr/> 613	<hr/> 621
	<hr/> <hr/>	<hr/> <hr/>
Plant and machinery, leases expiring:		
Within one year	18	30
In two to five years	10	16
Beyond five years	-	-
	<hr/> 28	<hr/> 46
	<hr/> <hr/>	<hr/> <hr/>

18. CONTINGENT LIABILITIES

Insurances:

Building insurance is only effected by the Company in respect of the East Malling site.

A policy is in existence to cover the Company's liability under the Employers' Liability (Compulsory Insurance) Act 1969 for Company employees, but certificates of indemnity under the Regulations of the Act are in operation from the Ministry of Agriculture, Fisheries and Food for MAFF employees and from the Office of Science and Technology for BBSRC employees.

Other:

Under the conditions of grant in aid agreed between the BBSRC and the Company, any unspent balance of annual grant will not normally be surrendered at the end of a financial year, but the BBSRC does reserve the right to make adjustments in succeeding years. No adjustments have been made in recent years and none are expected for 1998.

THREE YEAR SUMMARIES

STATEMENT OF FINANCIAL ACTIVITIES

	1998 £'000	1997 £'000	1996 £'000
Incoming Resources			
MAFF Commission	9,874	10,563	11,747
BBSRC Grant in aid	3,692	3,591	3,603
Commercial - MAFF	2,429	2,157	1,564
- other	5,436	4,779	4,671
Other receipts	1,372	1,163	1,321
Capital grants amortisation	1,352	1,442	3,321
	<u>24,155</u>	<u>23,686</u>	<u>25,229</u>
Resources expended			
Direct charitable expenditure	22,536	21,380	24,015
Management and administration	1,462	1,577	1,680
	<u>23,998</u>	<u>22,957</u>	<u>25,695</u>
Net incoming/(outgoing) resources	<u>157</u>	<u>729</u>	<u>(466)</u>

BALANCE SHEET

	1998 £'000	1997 £'000	1996 £'000
Tangible fixed assets	46,564	45,459	40,916
Current assets	7,360	8,471	8,912
Creditors due within one year	(3,339)	(4,669)	(6,487)
Capital grants	(43,818)	(43,368)	(38,926)
Provisions for liabilities and charges	(4,457)	(3,470)	(2,721)
	<u>2,580</u>	<u>2,423</u>	<u>1,694</u>
Reserve fund	1,870	1,713	1,521
Accumulated surpluses	710	710	173
	<u>2,580</u>	<u>2,423</u>	<u>1,694</u>

**REVIEW REPORT
TO THE MEMBERS OF HORTICULTURE RESEARCH INTERNATIONAL**

We have reviewed the modified historical cost accounts on pages 24 to 27 which have been prepared in accordance with the basis of preparation set out on page 26. These modified historical cost accounts have been prepared by management in order to provide the required disclosures for reporting under Treasury guidelines for an Executive Non Departmental Public Body. The modified historical cost accounts are the responsibility of management. Our responsibility is to report on these modified historical cost accounts based on our review.

A review is limited primarily to enquiries of management, analytical procedures applied to the financial information being reviewed and, in this instance, a consideration of the basis of preparation of the modified historical cost accounts. A review provides substantially less assurance than an audit conducted in accordance with auditing standards. We have not performed an audit and, accordingly, do not express an audit opinion on the modified historical cost accounts.

Based on our review, we are not aware of any material modifications that should be made to the modified historical cost accounts for them to be in conformity with the basis of preparation set out on page 26.

Robson Rhodes
Chartered Accountants and Registered Auditor

Birmingham

23 September 1998

HORTICULTURE RESEARCH INTERNATIONAL

**MODIFIED HISTORICAL COST
STATEMENT OF FINANCIAL ACTIVITIES
year ended 31 March 1998**

	Note	1998 £'000	1997 £'000
Income and Expenditure			
Incoming Resources			
Commission from MAFF		9,874	10,563
Grant in aid from the BBSRC		3,692	3,591
Commercial contracts research income			
MAFF open and link contracts		2,429	2,157
Other		5,436	4,770
Other receipts		1,372	1,163
Amortisation of capital grants		1,352	1,442
Total Incoming Resources		<u>24,155</u>	<u>23,686</u>
Resources Expended			
Direct charitable expenditure		22,536	21,380
Management and administration		1,462	1,577
		<u>23,998</u>	<u>22,957</u>
Modified historical cost adjustments			
Notional cost of capital employed		6,383	6,139
Notional cost of insurance		228	200
Additional depreciation		1,398	1,201
Total Resources Expended		<u>32,007</u>	<u>30,497</u>
Net outgoing resources for the year		(7,852)	(6,811)
Reserve fund brought forward at 1 April 1997		(11,876)	(5,056)
Reserve fund carried forward at 31 March 1998		<u>(19,728)</u>	<u>(11,876)</u>

HORTICULTURE RESEARCH INTERNATIONAL

MODIFIED HISTORICAL COST BALANCE SHEET at 31 March 1998

	Note	1998 £'000	1997 £'000
Fixed assets			
Tangible assets	2	102,092	98,511
Investments		-	-
		<u>102,092</u>	<u>98,511</u>
Current assets			
Stocks		371	471
Debtors		4,045	6,114
Cash at bank and in hand		3,214	1,886
		<u>7,630</u>	<u>8,471</u>
Creditors: Amounts falling due within one year		<u>(3,339)</u>	<u>(4,669)</u>
Net current assets		<u>4,291</u>	<u>3,802</u>
Capital grants: Amounts to be amortised within one year		<u>(1,350)</u>	<u>(1,450)</u>
		<u>2,941</u>	<u>2,352</u>
Total assets less current liabilities		<u>105,033</u>	<u>100,863</u>
Capital grants: Amounts to be amortised after more than one year		(42,468)	(41,918)
Provisions for liabilities and charges			
Pensions reserve fund		(4,157)	(3,170)
Other provisions		(300)	(300)
		<u>58,108</u>	<u>55,475</u>

NOTES TO THE MODIFIED HISTORICAL COST ACCOUNTS

31 March 1998

1 BASIS OF PREPARATION

- a) The statement of financial activities and balance sheet set out in pages 24 and 25 are stated on a modified historical cost basis in accordance with HM Treasury requirements for Executive Non-Departmental Public bodies.

The basis for the calculation of the modified historical cost adjustments are as set out below:

- b) Notional cost of capital

Notional cost of capital, representing the average capital employed during the year, is calculated on the basis of 6% of total capital employed. Capital employed is defined as total assets less current liabilities.

- c) Notional cost of insurance

Notional cost of insurance represents a provision to cover the estimated value of claims in respect of uninsured risks. The annual cost is calculated on the basis of 1% of total income before amortisation of capital grants.

- d) Valuation of tangible fixed assets

Additions to leasehold land and buildings: The existing additions to land and buildings on all sites was valued by Messrs Strutt and Parker (professional valuers) in 1992. Assets acquired since the valuation have been included at cost. Assets have been enhanced by 2% per annum as a reflection of price inflation in the intervening period.

Plant and machinery, fixtures and fittings: Some large items of plant were included in the Strutt and Parker valuation in 1992. All other equipment was revalued by the Company during the year ended 31 March 1994, by reference to suppliers' price lists, direct quotes, or specialist estimate. Assets acquired since the valuation have been included at cost. All assets have been further revalued by 3.5% per annum to reflect price inflation in the intervening period.

- e) Additional depreciation on tangible fixed assets

Additional depreciation has been calculated by reference to standard depreciation rates applied to the total revalued amount. The rates used are different to those applied for historic cost purposes, and are as follows:

Land and buildings	-	over 50 years
Plant and machinery	-	over 10 years

NOTES TO THE MODIFIED HISTORICAL COST ACCOUNTS
31 March 1998

2. TANGIBLE FIXED ASSETS

Tangible fixed assets on a modified historical cost basis are stated as follows:

	Additions to leasehold land and buildings £'000	Plant and machinery, fixtures and fittings £'000	Total £'000
Current cost			
At 1 April 1997	84,280	14,231	98,511
Additions in year at cost	1,953	1,089	3,042
Transfer to revaluation reserve	681	(142)	539
At 31 March 1998	<u>86,914</u>	<u>15,178</u>	<u>102,092</u>
Depreciation			
At 1 April 1997	-	-	-
Charged in year	1,753	1,582	3,335
Transfer to revaluation reserve	(1,753)	(1,582)	(3,335)
At 31 March 1998	<u>-</u>	<u>-</u>	<u>-</u>
Net book value			
At 31 March 1998	<u>86,914</u>	<u>15,178</u>	<u>102,092</u>
At 31 March 1997	<u>84,280</u>	<u>14,231</u>	<u>98,511</u>