

# DIRECTOR'S REPORT

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OPTIONS FOR THE FUTURE OF  
CHADLINGTON QUALITY FOODS LTD.

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APRIL 26, 2007



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## 1 If you only have time to read one page – please read this one...

This report explains three options for the future of Chadlington Quality Foods. We have written it to stimulate discussion and encourage further support for the business and those who look after it. Of course, we do hope that you will read the whole report, as a great deal of effort has gone into it.

There has always been a village shop in Chadlington but it has changed hands from time to time. Now the shop is owned by a group of shareholders in the village who gave funds to prevent it from closing in 2001. Nick Burgess and our staff manage the shop. We are the Company Directors and we donate our services and time for free to run the business with the help of our professional advisors. Our "team" started working together in November 2000.

After six years, we felt it was time to bring the discussion about the future of the shop back to our shareholders and to the village as a whole. We started this debate at the last Annual General Meeting (AGM) held on 27<sup>th</sup> February 2007 and agreed that we would report our findings.

Since the last AGM, we are pleased to report that we have received some firm offers of help and that we will now be able to re-form the Shop Operating Committee. We would still like more people to help and once you have read our report, please do get in touch if you would like to be involved in supporting the Committee.

Shareholders are already aware that James Slatter and Nick Burgess have made an offer to acquire the business. James and Nick wish to return the shop to private ownership by their purchase of all the shares in the business at the price shareholders originally paid in 2001. Shareholders are advised to seek independent professional advice regarding the financial aspects of this offer; any other questions about it should be addressed to James and Nick directly.

Based on the terms of the offer made by James and Nick, all shareholders must agree to it before it can be successful. When the offer has passed its deadline (18<sup>th</sup> May 2007), a shareholder meeting will be held to provide an update and opportunity for further discussion. We will write to you about it when we have more information.

At the last AGM, we agreed to spend time investigating the options for the future of the shop and to report back to shareholders and the village as a whole. Therefore, please read the information we have provided before making any decision about the offer that has been made.

Please get in touch with us if you would like to be more involved with the shop or if you would like to find out more about what we have written. Our contact details are in Part 11 of this report.

Helena and I would like to thank everyone, including our shareholders, customers, and professional advisors, for the support you have given the shop, its manager, staff, committee and directors over the last six years. We rely on your continued and increased support.

We would like to reassure you of our commitment to administer the business for the future on behalf of our shareholders, customers, and the village as a whole. Please read on.

Mike Smith and Helena Oldroyd

Directors, Chadlington Quality Foods Ltd

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## 2 Introduction

Thank you for taking the time to read this Director's Report into the future of Chadlington Quality Foods Ltd (also referred to as "the shop"). After six years of successful operation, we felt that it was important to bring the matter of the future of the shop back to you, our shareholders, and to the village as a whole. The challenge we faced in running the business with a diminishing level of support also prompted us to do it. We felt that without additional help, there was a risk to the future of the shop. However, it was also necessary to reaffirm the direction for this important community asset, and we raised the subject at the Annual General Meeting of the Company held on 27<sup>th</sup> February 2007.

In addition to the challenges faced "behind the scenes", other matters also make this the right time to review options for the future of the shop. Issues such as shop management and staffing contribute to the importance of this review, and our advisors report that six years is a typical period within which a village shop such as ours may undergo some kind of change.

This report brings together relevant information to illustrate three options for the future of the shop and present them both to you, our shareholders and the local community. We welcome your feedback and support. We have provided details if you would like to find out more information or become more closely involved with the shop.

## 3 Background to Chadlington Quality Foods Ltd

At the last Annual General Meeting held on 27<sup>th</sup> February we had a clear mandate from shareholders to communicate the present status of the shop to the wider village community. For those less familiar with the shop's history we will review the background to the shop, and its progress since we took it over in 2001. We hope that this will put the current situation into useful context.

### 3.1 History of the Village Shop in Chadlington

There have been a number of shops in Chadlington throughout recorded history. The Post Office and Stores, Butchers, and the Village Shop that finally evolved into Chadlington Quality Foods have been important to generations of village residents. With the growth of motorised transport, businesses in the village have enjoyed custom from all over Oxfordshire, The Cotswolds, and beyond. Visitors who come here for their holidays benefit from the range of services provided.

A number of different people have owned and operated the "village shop" throughout its history. Originally located next to the Old Forge, the Slatter Family ran the shop and it moved later into the current premises next door to their Butcher's Shop. John and Beryl Slatter continued to run the shop for many years.

One of the most significant owners of the shop was Helen Datson. Helen took over the shop from the Slatter Family and ran it for 9 years, particularly building up the home cooking side of the business. People remember "Helen's" as a great success within the village. Helen later went on to extend the experience she gained running her own shop to others through her work at the Oxfordshire Rural Community Council. Whilst another advisor has since taken over from Helen, the ORCC continues to support the shop and its Directors through grants and professional advice. In return, the shop has worked with the ORCC on initiatives to encourage the sale of locally sourced goods and produce, and we are an important case study for them.

Unfortunately, after Helen moved on, the shop fared less well, and the periods of different ownership were much shorter. Eventually a partnership of Martin Slatter and Graham Fitzpatrick took over the shop. Despite significant marketing effort and considerable improvements made by Martin and Graham, the shop was put up for sale on the open market in 1999. Due to the absence of any buyers, its closure was inevitable.

### 3.2 Formation of Chadlington Quality Foods Ltd

In November 2000, Slatter's Quality Foods had been on sale as a business for over a year. Although there was some interest from other local businesses, it fell to a group of people within the village to try to retain the shop. Originally, Clare Summers and Helena Oldroyd were involved in this project; Clare did a lot of research into ways to keep the shop open, and involved ViRSA (The Village Retail Services Association) for assistance.

At a public meeting in November 2000, Mac Dick presented a summary of the shop's finances, and Clare presented the findings from her research. Clare knew that a dedicated group was required to take matters further, and some of the people who responded to her requests for help formed a Management Committee.

The Committee consisted of five local residents who felt very strongly that they should preserve the shop for the village. The functions of the Committee were:

- ◆ To preserve the shop for the village and the local community
- ◆ To represent the best interests of the village with respect to the shop
- ◆ To represent those people who had pledged funds for the purchase

It was determined that the Committee would need to achieve the following in order to be successful:

- ◆ Find a skilled manager for the shop itself, who could help us build the business up and meet the needs of existing and new customers.
- ◆ Establish a sound legal and financial framework for the purchase of the business.
- ◆ Develop a solid business plan.
- ◆ Raise the funds to purchase the business at an appropriate price and to provide sufficient working capital to implement the business plan.

The Committee was able to put enough of these pieces in place to move forward with the acquisition of Slatter's Quality Foods. We secured the services of Mr. Nick Burgess as General Manager of the shop. Nick met all of the required criteria, and we were confident that the experience and enthusiasm Nick would bring to the business would ensure its success in the future, given that Nick and his wife Kathleen had run various delicatessen businesses over a period of 30 years.

A business plan was prepared and we appointed legal and financial advisers. Over 50 villagers put in various amounts, in return for shares but no financial reward. The acquisition was successful, and Chadlington Quality Foods Ltd was incorporated at Companies House in 2001.

### 3.3 Early Growth and Development

Once we had acquired the shop and started trading in June 2001, the first year of business was a significant challenge. We invested a lot of time and energy in putting basic operating procedures together and ensuring compliance with regulatory or financial responsibilities. However in general, the shop was flourishing, the number of regular customers was growing and there was a marked increase in passing trade.

We held our first Annual General Meeting in August 2002 and we reported that there had been an operating loss of approximately £3,500, against a turnover of £196,571 and a gross profit margin of 33.5%. We identified a number of areas for improvement, including the processing of customer accounts and the collection of outstanding debts, the need for new and updated equipment, and the refitting of the kitchen and storeroom.

We also recorded a number of significant achievements including:

- ◆ A much wider range of stock across all areas of the shop
- ◆ The introduction of paid holidays, Christmas bonuses, and proper payroll facilities for staff
- ◆ We installed new equipment, fixtures and fittings, including two new ovens, new fire and safety equipment, upgraded lighting and replacement shelving.

By Christmas 2002, we had secured grants to enable the refitting of the kitchen and the provision of new refrigeration equipment. We had already installed the new refrigerators and shop freezer, and the kitchen refit was planned to take place during 2003.

At the AGM in June 2003, we had reduced the operating loss by 30%, increased our fixed assets by over 50%, maintained the same gross margin, and increased turnover by 6% and gross profit by 5%. Further details of the financial progress of the business are available in Appendix 1 of this report.

By this time, we had also completed the refitting of the kitchen, the rewiring of the premises and the installation of further refrigeration equipment including a specialist blast chiller to increase the shelf life of frozen products and improve overall quality. Staff were involved in preparing and operating policies for health and safety issues in line with statutory requirements, e.g. food handling processes, lifting instructions, hazard awareness and risk assessments.

We were very proud to have completed a four-page case study for ORCC and the Countryside Agency that was published in support of the "Vital Villages" scheme. This promoted the Countryside Agency's work around the country and encouraged other villages to do the same kind of things as we had done to save their local shopping facilities. You can find details of the case study in Appendix 3 of this report.

### 3.4 Building a Sustainable Business

By the AGM held on 14<sup>th</sup> November 2004, we felt we were on track to demonstrate that we were building a sustainable business and we announced significant improvement in the financial results. Gross profit had increased by over 15%, the profit margin was up 5%, and we declared an operating profit of £5,416, an increase of over 300% from the previous year. Chadlington Quality Foods Ltd was now a profitable trading company with a healthy turnover and balance sheet.

The significant achievements over the year had been:

- ◆ Elimination of bad debtors and late payments from the accounts scheme.
- ◆ Significant local and national press coverage arising from participation in events and competitions.
- ◆ Maintaining the constant variety of high quality stock and fresh produce.

Throughout 2005, we made further progress, some of the highlights being:

- ◆ The new type of Licenses, both Personal and Premises, were successfully applied for.
- ◆ The implementation of "chip & pin" was successful.
- ◆ We installed new chiller cabinets in the shop that improved the presentation of products and reduced operational cost through greater efficiency.
- ◆ We redecorated the shop exterior.
- ◆ An unannounced Health & Safety visit passed successfully without the need for any changes to our routines.

Because of the continued hard work and effort put in by Nick Burgess and the shop staff, the financial results continued to reveal that the business was healthy. Sales grew by 6% to £222,837 and profit by 7% to £5809.

### 3.5 Proven Success of the Venture

By our sixth Annual General Meeting, held on 27<sup>th</sup> February 2007, we knew that the venture was a proven success and we demonstrated this with outstanding financial results. We announced a net profit of £10,407 – an increase of over 90% from the previous year. This was the result of a decrease in operating expenses and an increase in turnover. Whilst the profit margin had reduced slightly it was still extremely high – we have always achieved over 30% margin whereas other village shops across the country generally achieve around 20%. In the case of Chadlington Quality Foods, we achieve this by the continued success of our home cooking range, and because we eliminate almost all wastage.

Improvements and activities during the year had included:

- ◆ Participation in the Oxfordshire Rural Community Council "Local Food" project – intended to stimulate and recognise the wealth of local produce available from suppliers on our own doorstep.
- ◆ Installation of new tills and subsequent improvement in financial accuracy and printed receipts.
- ◆ Redecoration of the Kitchen.
- ◆ Award of a grant and subsequent installation of new weigh-labelling system, dramatically improving the appearance of printed labels and assisting in compliance with labelling regulations.

Once again, it was stated and agreed that the success of the venture was in the most part due to the skills and diligence of Nick Burgess the Shop Manager, the support of his wife Kathleen, and the continued loyal support and service of the shop staff.

## 4 What makes us Successful?

Relatively few things are critical to the success of a village retail business such as Chadlington Quality Foods. We believe that the factors listed here are the most important to the future of the shop and want to make everyone aware of them.

### 4.1 Variety and Volume of Customers

Without an appropriate variety and quantity of customers, the shop would not be sustainable. We have had little opportunity to track customer volumes except by the financial results and the continued number of account customers. However, it is clear that from the level of turnover that we do have a significant volume of customers, and it is critical that we maintain this.

### 4.2 The Right Products and Services

The shop must provide the products and services that our customers need and want. The shop has always kept a balance between staple products at reasonable prices and more expensive or exotic items. You will find the most basic every-day goods alongside a wide variety of quality produce and an extensive delicatessen.

### 4.3 Experienced and Dedicated Staff

The staff in the shop includes new faces in the village alongside others who have worked there for many years despite the various changes of ownership. Pat Harding, for example, has worked in the shop for some forty years. Her experience, diligence, and good nature are invaluable both to us and to everyone she has worked for. The experience and skills that the staff maintain are essential to the success of the shop. Having the appropriate number of staff with the right skills is critical.

### 4.4 Experienced and Dedicated Management

The shop will always require experienced and dedicated management to succeed. Nick Burgess has demonstrated precisely what is required in terms of experience, knowledge and customer service to ensure the shop has been successful. The only area that Nick does not cover is recruiting and staff management, which has been the responsibility of the Directors and Committee.

## 5 What are our Major Challenges?

There are two major challenges facing the business today that we must address in the immediate future. They are as follows:

### 5.1 Shop Management

We know that appropriate management of the shop is critical to its success. At the present time, we are aware that Nick Burgess has stated he does not wish to continue in his role indefinitely (see in Appendix Two, AGM Minutes of 27<sup>th</sup> February 2007, Part 14 Paragraph C) and that separately he has discussed retiring in 18 months time.

## 5.2 Shop Staffing

Despite the very dedicated and skilled staff that we do have, it has always been a challenge to secure the right number of staff with the appropriate skills to work in the shop for the hours that we need. Without the appropriate number of staff, it is a challenge to sustain the shop.

## 6 What Else is Important?

We do not consider every challenge to be a “major” challenge, but there are areas where the shop needs more support in order to continue the success we have achieved to date.

### 6.1 “Behind the Scenes” Activities

It is a hard to maintain enough people carrying out the “behind the scenes” activities to support the shop. Where a shop is under private ownership the owner/manager would typically undertake these activities. Since we took over the shop, the original committee has reduced in numbers, and with the recent resignation of Karen Burling who has left the village, only two Directors remain.

At our second Annual General Meeting held 30<sup>th</sup> June 2003, my Chairman's report highlighted for the first time that in order to move forward with many of the improvement plans necessary for the shop, further support from the Village was necessary. This has been a constant message to you as shareholders at every AGM since, and particularly so at the last AGM in February this year.

Fortunately, what had recently seemed insurmountable may now be less of a challenge as new people have come forward to offer their support, offering us the opportunity to re-form the Shop Operating Committee (further details are given later). This is a result of the overall interest and discussion generated in the village since the AGM and we will continue to take advantage of this to secure as much support as possible.

Some of the activities that go on “behind the scenes” include:

- ◆ Liaising with the shop manager and staff and helping to resolve problems.
- ◆ Hiring and maintaining the appropriate staff.
- ◆ Reviewing financial progress and results.
- ◆ Carrying out managerial and legal responsibilities.
- ◆ Maintaining fixtures, fittings, and equipment.
- ◆ Marketing, promotions, events, and general business development.
- ◆ Winning grants, concessions, and other support from interested parties.
- ◆ Communicating to the village and shareholders about the progress of the shop.

If you might be prepared to help in any way, we would be very pleased to hear from you. You can find out how to get in touch in Part 11 of this report.

### 6.2 Increasing the Variety and Volume of Customers

Marketing and promoting the shop has always been one of the most time consuming activities that we have to undertake. We have been very fortunate as the way the shop is managed means that to a

certain degree it markets itself. However going forward, particularly as other village businesses are changing, we need to do more to sustain the variety and volume of customers that we enjoy today.

## 7 The Need for Action

The village has enjoyed the benefit of our whole team keeping the shop open for the last six years, when otherwise it would have almost certainly closed. Despite the obvious success of Chadlington Quality Foods, the Directors felt that it was time, having discussed the matter extensively with our advisors, to bring the issue of the future of the shop back to the shareholders and the wider community in the village.

This prompted in part by the challenges we faced in supporting the shop effectively with reduced numbers. However, as we looked at the issues it became obvious that a wider discussion about the future of the shop was appropriate. To that end, we raised the matter with shareholders at the Annual General Meeting held on 27<sup>th</sup> February 2007 in the Memorial Hall.

## 8 Summary of the Annual General Meeting, February 2007

The full minutes recorded at this AGM are included, given the relevance of this meeting, as Appendix 2 of this report. However to continue the account this report is giving, the key points are repeated here.

### 8.1 Topics Covered at the AGM

At the AGM, we reported, as usual, a string of successes, not least the financial results that were outstanding. We also reflected on the support from our staff and the shop manager Nick Burgess, as well as the continued quality and variety of goods and produce on sale in the shop. However, we also presented a list of activities, that, due to lack of additional support, we had been unable to consider during the year. These activities related mostly to marketing, but we also explained that doing anything very proactive had become a challenge.

We put it to the shareholders that we needed to look for additional support and if it was not forthcoming, to perhaps consider alternative models for the business. We suggested that the time was right to discuss the future of the business, and reported that James Slatter had expressed an interest in acquiring the business and returning it to private ownership.

### 8.2 Discussions at the AGM

We have recorded a summary of the discussions held at the AGM in the Minutes that we have presented as Appendix 2 of this report.

### 8.3 Summary of Actions from the AGM

At the AGM, the Directors agreed with the shareholders to take the following actions:

1. Get back in writing.

We have kept the shareholders informed by circulating the minutes of the AGM in writing to each shareholder after the AGM. We have indicated already that we would send out this report following the arrival of written details of the offer made by James Slatter and Nick Burgess.

This report is the outcome of the investigations made into the options for the future of Chadlington Quality Foods and we have delivered it two months after the AGM as agreed.

2. Hold a further meeting.

We will hold a further meeting; see Part 12, "What Will Happen Next?" of this report.

3. Communicate to the rest of the village and invite those interested to join in the consultation.

We had to wait for written details of the offer made by James Slatter and Nick Burgess before finalising this report. However, we will make it public and invite the village as a whole to read it and provide feedback.

4. People new to the village with business experience could be canvassed

Given the interest already generated by the discussion at the AGM, this has happened and at least two new people have come forward to offer their help to rebuild the Shop Operating Committee, as well as one villager who is already aware of the situation in detail.

5. A document would be circulated via local businesses and, if possible, with the Parish Magazine

We will make this document available for public consumption. We will send it in printed form to all shareholders and it will make it available online at [www.chadlington.com](http://www.chadlington.com). We will offer printed copies to those who cannot access the online version.

## 9 Options for the Future of Chadlington Quality Foods Ltd

Following the AGM on 27<sup>th</sup> February 2007, we agreed to investigate various options for the future of the shop. Fundamentally, whatever option is taken forward will have to be able to address the main challenges that we have identified – managing the shop, having enough staff, selling the right things, and having plenty of customers. Of these, management and staffing are the most pressing issues facing the shop today.

### 9.1 Returning the Business to Private Ownership

Returning the business to private ownership represents a major change to the way that the shop is run. Recent history has shown that private ownership by individuals or partnerships has not always been the best model for the shop. On the other hand, private ownership does mean that if the owners of the business depend on it for their livelihood, there is a reasonable assumption that making it a success will be in their best interests.

Transferring the business to a private owner will only work if all shareholders agree to it.

Private ownership means that the village would no longer have any control of the business. There are mechanisms such as “golden shares” available which could ensure some level of retained control for the village over certain actions by a private owner. However, after investigating these mechanisms we believe it is very unlikely that a private owner would be prepared to enter into such an agreement where the village retained some level of control over their operation of the business.

#### 9.1.1 Returning Excess Capital to the Village

Excess capital is money held in a business that is over and above what is required to run the company whilst maintaining a reasonable reserve. Over the time we have administered Chadlington Quality Foods, we have built up excess capital of approximately £25,000 over and above what is required to run the shop and maintain a reasonable reserve.

Any private purchaser should not gain control of the excess capital that we have built up through six years of hard work by the manager, staff, committee and Directors of the company. We undertook this venture on behalf of the whole village; if the shop returned to private ownership this would be our one and only chance to give this money back as a benefit to the village.

Therefore, in the event of any transfer to private ownership, we will distribute all excess capital back to other good causes in the village in accordance with the original goals of the Company. We are working to establish a list of potential causes to receive these funds in the event of a transfer to private ownership and we have recorded the current list of potential causes in Appendix 4 of this report.

#### 9.1.2 The Offer Put Forward by James Slatter and Nick Burgess

Immediately after we notified shareholders of the importance of discussing the future of the shop at the AGM, James Slatter wrote to a number of shareholders to express his interest in acquiring the business. We discussed this at the AGM, and we agreed that we would meet with James to understand the nature of his proposal.

We held a meeting on 28<sup>th</sup> March 2007 during which James and Nick indicated that:

- ◆ They would be in equal partnership

- ◆ That they have the funds needed to purchase the business
- ◆ They would approach shareholders to purchase their shares in the business.

We asked to see written confirmation of the details of their offer before completing our Directors Report on the Options for the Future of Chadlington Quality Foods.

You will now have been in receipt of the letter that James and Nick wrote to all shareholders on 16<sup>th</sup> April 2007 in which they made the details of their offer known. We have summarised the offer below:

- ◆ To purchase your shares in the Company for the same price you originally paid in 2001.
- ◆ The offer is conditional on obtaining agreement from all shareholders and will remain open until Friday 18<sup>th</sup> May 2007.

**In order to put this offer in context, it is important to understand that:**

In 2001, we issued 35,376 shares at a price of £1 per share. The total value of all shares is £35,376

This is considerably less than the potential value of the shares if we were to place the business for sale on the open market.

The offer is conditional on ALL shareholders agreeing to sell their shares.

In the event of the transfer to private ownership, the present Directors would return excess capital in the business in the order of £25,000 to the village.

### 9.1.3 Placing the Business for Sale on the Open Market

We discussed another option, which is to place the business for sale on the open market, to attract a private owner who would be naturally incentivised to make a success of their business. This would therefore benefit the village at the same time as themselves.

It is possible that this option would result in the purchase of the business by somebody outside of the area who does not have a commitment to the village. It is equally likely that a purchaser would find it in their own interests to ensure the success of their business by cooperation and consultation with the villagers who form a major part of their customer base.

**If we placed the shop on the open market, it is important to understand that:**

We would place the business for sale at a value between £75,000 and £90,000.

This range was determined using normally accepted business valuation practice, and was based on the profitability of the business.

The equivalent range of share values is between £2.12 and £2.54.

In the event of the transfer to private ownership, the present Directors would return excess capital in the business in the order of £25,000 to the village.

## 9.2 Maintaining the Present Operating Model of the Shop

The shop has operated very successfully under the current model despite the challenges that we described earlier in this report. There is no doubt that in order to secure its long-term future we must address these challenges and most importantly:

- ◆ Create a succession plan that will ensure management of the shop given that Nick Burgess will retire or otherwise leave the Company at some time.
- ◆ Find a staffing model that works better than the one we have today, that recognises that some staff may leave, and that requires more full time staff to be available.

As Directors, we continue to be legally required to administer the company according to best practices. This is the "status quo". We will continue to be accountable for the shop and will make every effort to secure its future for the village in line with our original objectives. We will do this by working to enhance the current operating model and by continuing to investigate other ways of securing the business for the future.

We acknowledge that whilst this does not offer an immediate solution to all the challenges faced by the shop, it does continue the ownership of the shop by a body of shareholders in the village, and is in line with the objectives we set out to follow in 2001.

### 9.2.1 Enlarging the Operating Committee

Since the future of the shop has been a topic of recent discussion, three villagers have pledged their support to assist the Directors in revitalising the Operating Committee of the shop. One of these has considerable marketing experience; another has retired from a career in industry, and another works in the food retail business.

We believe it is possible that more people from the village will come forward to join a new Operating Committee and help to invest in the future of the business. We hope that those who are interested will read this report and will want to discuss the shop with us. In the event that more people come forward, we will be slightly more formal in the way we run the Committee and we will report regularly on progress to the shareholders and the village in general.

Activities that the Directors and Committee will undertake include:

- ◆ Finding and retaining staff.
- ◆ Creating a new business plan with professional advice.
- ◆ Continuing to recruit further members to the Committee and the "Friends".
- ◆ Marketing.
- ◆ Business development.
- ◆ Customer and product research.
- ◆ Liaising with other village businesses and organisations.

If you are interested in contributing to an Operating Committee please get in touch – we have given you our contact details in Part 11 of this report.

### 9.2.2 Creating a New Business Plan with Additional Support

It will be vital to the future of the business to establish new goals and create a new business plan. With additional support, we could refresh a more simple business plan at the end of each year, report on it at the AGM, and use it to measure the results of the business. We would invite the Oxfordshire Rural Community Council to help us create a plan that builds on their experience working with other businesses in the local area.

### 9.2.3 Using Excess Capital to Invest in Increased Staffing

We could direct the excess capital we have built up towards securing the services of current staff and recruiting full time staff to resolve the staffing challenges that we face. We had not previously considered this approach, but we now have a continuous stream of good profits that will allow us to consider alternative staffing strategies. We will thoroughly explore these options.

### 9.2.4 Returning a Portion of Excess Capital to the Village

For the first time, our level of profit has meant that we have had to pay Corporation Tax. It will be tax efficient for us to reduce the excess capital. We will do this by donations to organisations that can benefit from Gift Aid. This will allow us to offset the donation against Corporation Tax and reduce the tax liability of the Company in future years.

We will setup a mechanism whereby the Directors, committee, and shareholders agree how some portion of the excess capital is distributed. We firmly believe that we should use excess capital to secure the future of the business, and that we should return some portion of it to support village causes in a tax efficient way in line with our original objectives. We have recorded the current list of potential causes in Appendix 4 of this report.

## 9.3 Other Business Models

We have considered other business models such as charities, trusts, and cooperatives but we have evaluated these as being as unsuitable for the operation of the company at this time. They would not address the challenges that we face by changing the business model or the structure of the company.

## 10 Activities Undertaken by the Company Directors since the AGM

In addition to the research and consultation necessary to prepare this report, we have taken the following actions since the AGM on 27<sup>th</sup> February 2007.

### 10.1 Enlarging the Operating Committee

We have, as previously mentioned, secured the help of three more people to assist with the Operating Committee of the shop, and we believe there are more people who may come forward when presented with the information in this report. We will continue to seek more support for the Committee as a matter of course.

### 10.2 Focus on Staffing and Operational Issues

We have realised that staffing requires considerably more focus since Karen Burling resigned as a Director. One of the existing shop staff has agreed to take on this management responsibility with the support of the Directors and the Company Bookkeeper. We are currently undertaking an audit and review of all salaries.

To ensure that we can support the day-to-day running of the shop we will hold weekly reviews with the shop manager and key members of staff.

### 10.3 Reviewing the Financial Position of the Company

We have reviewed the financial position of the company with our advisors in order to understand the options for use of excess capital and have begun to consider the options for new staffing models. This is in addition to the audit and review of current salaries mentioned above. We have supplied a summary of our financial progress since we began trading in Appendix 1.

### 10.4 Making Progress on Marketing Activities

We have had a wealth of marketing input from a new member of the Shop Operating Committee and have already started to progress some basic marketing activities. To begin, we will form the Friends of Chadlington Quality Foods. A "friend" is a customer who agrees to share their name, address, and email details with us, in return for regular progress updates on the shop, its products and services, and more. This simple project will help us gather information about our customers and their needs, for example to understand the way people like to use the shop.

### 10.5 Investigating Opportunities for the Shop to Benefit the Village

As part of understanding the ways in which excess capital could be distributed, we are consulting with others in the village to identify the potential causes to which we could contribute either in the event of a transfer to private ownership or to benefit the village (and the business through tax efficiencies) in the future. We have recorded the current list of potential causes in Appendix 4 of this report.

## 11 How to Find out More or Get Involved

We welcome your thoughts and questions. If you would like to get in touch with us, here are the ways you can reach us:

By Telephone: please contact Mike Smith on 01608 676 595.

By email at the following address: [shop@chadlington.com](mailto:shop@chadlington.com)

In writing, to our registered office address:

Chadlington Quality Foods Ltd, 6 Southill, Cornbury Park, Charlbury, Oxfordshire OX7 3EW

Please do NOT address your correspondence or calls to the shop itself.

### 11.1 How to Join the Friends of Chadlington Quality Foods

If you would like to join the Friends of Chadlington Quality Foods and receive updates on our progress, products, and services, please send your full name, address, and email address (if available) to us either by email to [shop@chadlington.com](mailto:shop@chadlington.com) or by post to our registered office address given above.

### 11.2 Working with the Shop Operating Committee

We believe it is vital to re-form the Shop Operating Committee and we would be very pleased to hear from anyone who would like to support us. Please send us your details or give us a call to discuss.

### 11.3 The Offer Put Forward by James Slatter and Nick Burgess

We have no more information about the offer put forward by James Slatter and Nick Burgess than any other shareholder does. If you have questions regarding the nature of their offer, you must address them to James and Nick directly. We cannot provide any advice regarding the offer.

### 11.4 Rumour and Speculation

There has already been an amount of healthy discussion within the village regarding the future of the shop and we want to encourage this kind of positive debate. However, some are speculating in a way that might damage the future of the business. For example, one person was reporting that the shop staff and in particular Nick Burgess have never been paid a bonus, which is incorrect. Others have reported that Mike Smith has resigned from his position as a Company Director – which is also incorrect.

The best way to get accurate facts about the shop and how it has been run during the last six years will be to ask us directly, especially if you hear anything which does not seem quite right.

Having read our report, if there is anything you would like to know, then please telephone, email, or put your questions or concerns in writing to us and we will reply wherever possible with as much information as we can. Our replies will be subject to the provisions of confidentiality that govern the operation of a limited company in order to protect its interests and in particular the privacy of its employees.

## 12 What Will Happen Next?

We will make this report publicly available, along with the supporting materials described in Appendix 3.

We are not planning a further meeting until after the closure date given by James and Nick for their offer. Within a reasonable period following the closure date, we will organise an Extraordinary General Meeting to report progress and state the direction for Chadlington Quality Foods going forwards.

In any event, we will communicate in writing to you as required.

Thank you for taking time to read this report. We are looking forward to your feedback.

## 13 Appendix One – Financial Summary

### Chadlington Quality Foods Limited Summary of Company results since Incorporation

	Year/Period ended 30 June:				
	2002	2003	2004	2005	2006
<b>Sales</b>	<b>196,571</b>	<b>208,682</b>	<b>209,099</b>	<b>222,837</b>	<b>231,330</b>
Gross Profit	65,966	68,351	78,666	80,080	78,100
Interest Received	128	107	165	522	485
Grant Released	0	1,129	1,579	1,579	1,578
Overheads:					
Wages & Salaries	44,716	45,200	48,904	48,920	42,277
Depreciation	4,266	4,884	4,893	5,055	3,421
Rent & Occupancy	8,988	9,686	8,907	9,637	9,980
Start Up Costs	1,518				
Others	9,934	12,232	12,290	12,760	13,342
Total Overheads	69,422	72,002	74,994	76,372	69,020
Net Profit/(Loss) before Tax	<b>(3,328)</b>	<b>(2,415)</b>	5,416	5,809	11,143
Corporation Tax	0	0	0	0	<b>(736)</b>
<b>Retained earnings</b>	<b>(3,328)</b>	<b>(2,415)</b>	<b>5,416</b>	<b>5,809</b>	<b>10,407</b>
Sales growth year-on-year%		6.16%	0.20%	6.57%	3.81%
Gross Profit %	33.56%	32.75%	37.62%	35.94%	33.76%
Net Profit/(Loss) %	-1.69%	-1.16%	2.59%	2.61%	4.82%
Net Profit Growth year-on-year %		27.4%	324.3%	7.3%	91.8%

## 14 Appendix Two – Minutes of the AGM Held on 27<sup>th</sup> February 2007

Given the nature of the discussion held at this particular meeting we felt it was important to include the minutes of the meeting within this report. Minutes of other Annual General Meetings are available; please refer to Appendix 3.

### ANNUAL GENERAL MEETING

27 February 2007

### MINUTES

1. The Chairman opened the meeting and welcomed shareholders to the company's fifth Annual General Meeting. Directors and invited guests were introduced. The Chairman asked the shareholders' permission for the guests to remain. This was given.
2. The Chairman suggested that the formal business of the meeting be dealt with and that time would then be given for a more informal Q&A session. This was accepted.
3. Apologies for absence were given.
  - a. Mrs Burling asked that it be noted that Major Mills had written and asked for special thanks to be passed on to Nick, Kathleen & Elizabeth for all their hard work.
  - b. A letter from Mr M Chapman was read out, expressing his support for CQF and a desire for the Post Office and Stores to work more closely with CQF.
4. The Minutes of the previous AGM were read by Mrs Burling.
  - a. It was proposed they be accepted by Mr Brewster and seconded by Miss Eden.
  - b. The proposal was carried.
5. The Chairman addressed the meeting giving a summary of the finances from the Accounts Year ended 30 June 2006
  - a. The Chairman moved that the Accounts be accepted.
  - b. Miss Eden proposed that the Accounts be accepted. Miss Allard seconded the proposal. The proposal was carried.
6. The Chairman advised the shareholders that Company Secretary, Mrs Burling, would be resigning as from this AGM.
  - a. Mr Leggett noted that this could not happen until a successor had been appointed.
  - b. Mrs Oldroyd offered herself for election.
  - c. Following a show of hands it was resolved that Mrs Helena Oldroyd be appointed Company Secretary with immediate effect.
  - d. Forms 288(b) and 288(a) issued to reflect the changes.

- e. The Chairman thanked Mrs Burling for her significant and valuable contribution to CQF and presented her with a bouquet of flowers.
7. The Chairman went on to discuss the current position of the business, which he said was in good shape. He thanked the staff for all their hard work and a round of applause followed.
8. The Chairman noted the following:
  - a. The excellent range of products on offer in the shop
  - b. The commitment and effort by Mr Burgess that makes the running of the shop possible
  - c. The installation of new tills
  - d. Redecoration of the kitchen
  - e. That a grant had been received from ORCC for the acquisition of a new weighing and labelling system. Thanks were given to Jane Barker and the ORCC for their support and for their invaluable help in training staff and programming the system.
9. The Chairman noted the rejuvenation of the Post Office and Stores and the contribution Mr Chapman has made to that business within the village.
  - a. The Chairman explained that cooperation between the shop and the post office had been difficult before Mr Chapman became involved, but that now the climate was right for cooperation to take place.
10. The Chairman then noted that despite the efforts of the shop staff, the Directors had had little opportunity, unfortunately, to engage in:
  - a. Marketing
  - b. customer surveys
  - c. the website
  - d. outside catering
  - e. or any other proactive efforts to support the shop or staff.
  - f. This lead on to the main topic for discussion – the future of the business.
11. The Chairman began the discussion with the following observations:
  - a. Despite great efforts, the original and very small committee dwindled rapidly to just three people. Since then, despite various sporadic offers, there hasn't been anybody else who has expressed a strong interest in assisting the Directors in their activities, who had then been able to carry that through to action.
  - b. Now, regrettably, the time had come when at least two of the current Directors have to move on as they cannot easily spend even the minimum time needed to administer the business successfully.
  - c. Whilst Mrs Burling had resigned, Mr Smith would remain for the foreseeable future.

- d. The goal remains to keep the shop open in the village as long as the market exists for it, which is known to be the case.
  - e. There is a need to look for additional support to transition responsibilities to others, or consider an alternative model for the business.
  - f. Ideally, new blood as Directors of the business is needed, who have the time and enthusiasm to carry on.
  - g. Alternatively, various options need to be discussed to ensure the future of the shop.
12. A letter from Mr James Slatter, sent recently to shareholders, was read out expressing an interest in acquiring the business.
- a. The Chairman expressed thanks for Mr Slatter's interest
  - b. The chairman stated that he had spoken with Mr Slatter and that the Directors would now look to the shareholders for advice and support to assess the situation.
13. The Chairman opened the discussion to the floor and the following comments and thoughts were expressed:
- a. Mr Peto asked what are the other options mentioned by the Chairman, other than a sale to Mr Slatter or the status quo?
  - b. Mr Smith replied that subletting, transforming to a different format other than a limited company, or a different business model with legal accountability might be options.
  - c. Mr Stuart-Smith asked what had the Board of Directors done? How have the Board of Directors allowed the current situation to happen?
  - d. The Chairman said that one person had expressed an interest quite actively in joining the Board but that had fallen through. It is now more urgent some help comes forward and we bring this situation to the attention of the shareholders to take views and action points.
  - e. Previous communication on this matter may have suggested a significant risk to the business when that wasn't entirely the case. The business continues with Directors in place.
  - f. At every AGM more support had been asked for but none had come forward.
  - g. Mr Smith said that this is a point where we, the Directors, need more help but the shop still has a strong future.
14. The Chairman explained that Mr Slatter could acquire shares by approaching individuals. The view of the Board was to strongly recommend that we follow up with advisors and assess the viability of his offer and to investigate all possible options open to us.
- a. Mr Stuart Smith said that Mr Slatter's offer should be looked at.
  - b. Mrs Stuart Smith thought it was a super idea but would need Mr Burgess's opinion and thoughts as Mr Burgess is the lynchpin.

- c. Mr Burgess commented that the business needs new blood, someone young to come in as he [Mr Burgess] won't go on forever, but he can't see the logistics of it or get to grips as how Mr Slatter would operate it.
  - d. Mr Smith said Mr Slatter's proposal was to acquire the business, maybe through a majority shareholding and appoint/vote new company directors. The business would transfer to him and be run by him. That would be the model.
  - e. Mr Smith went on to suggest that maybe there are other ways to achieve Mr Slatter's goals.
  - f. Mr Burgess said that Mr Slatter has to be enthusiastic and dedicated and this mustn't be a whim.
  - g. Mr Smith suggested it may be appropriate to investigate Mr Slatter's expectations. He may need some guidance. He said that the Board is impressed with Mr Slatter's enthusiasm and the manner of his approach.
15. A question was asked about the value of the business.
- a. Mr Leggett said that the starting capital had been £35k and that there were standard ways and procedures to produce a valuation to put to the Board.
  - b. Improvements to equipment etc mean it's a significantly more valuable business and a much better business overall than when it was acquired.
16. Mr Smith reminded shareholders that the original ethos of the business was:
- a. To keep the business in the village
  - b. That no-one except the staff draw a salary
  - c. That there be no benefit to Directors under the current model
  - d. The village came together and contributed to retain the facility within the village when it was threatened with closure.
17. Mr Smith posed the question of what happens to the funds if the business is sold:
- a. Would they be returned to shareholders or perhaps the profit paid as a charitable donation to the village or another worthy cause like the Parish Council or the school?
  - b. Mrs Stuart Smith expressed the opinion that most people would be happy to transfer shares for what was paid.
  - c. Mr Smith said that there must be transparency to shareholders regarding finance.
  - d. Miss Allard suggested one option could be combining with other businesses. Mr Smith felt unable to comment in any detail, although there could be a possibility of taking such a suggestion to Martin Chapman – strength in unity.
18. Mr Peto felt that there were not many options and that Mr Slatter's offer is an outstanding option. It should be given the shareholders' support.

- a. Mr Smith asked if that was the view of the majority.
  - b. Mrs Hinchcliffe said Mr Slatter would need a lot of backing.
  - c. Mr Smith suggested that the proposal should be discussed with shareholders, to get feedback and gauge the level of support available under the current set-up.
  - d. Mr Smith questioned Mr Slatter's desire behind the acquisition. Mr Smith could see an opportunity for Mr Slatter with shareholder support. It's a good business and Mr Slatter could become involved at low risk.
  - e. Mr Smith noted that there would be a degree of risk as a transfer of ownership would change the operating model. Mr Smith noted particularly that his concerns would apply with respect to any transfer of ownership regardless of the interested parties.
19. Mrs Reason commented that the community getting involved had been a last resort. The voluntary time given up is not fair but that she understood the point about risk.
20. It was suggested from the floor that a 'Golden Share' would enable the community to have first call on the business in the event that a new owner should wish to sell it on.
- a. Mr Leggett explained that a Golden Share carries a vote in certain circumstances. It may be a condition that it may be used if the shop is subsequently offered for sale. It would be to the benefit of new owners and to the village as well.
  - b. Mr Smith asked if the shareholders agreed this was a good idea. There was a general agreement.
  - c. Mr Godfrey said that he agreed with the Golden Share idea as it maintains the right sentiment and doesn't have to be aggressively commercial. It would allow the shareholders to be less commercial in selling the shop and create less moral jeopardy.
21. It was noted that if the business were put on the open market today's business is a completely different proposition to that which was offered for sale in 2000, when it failed to attract a buyer.
22. Miss Harter asked the Chairman how many people he would like on the Board.
- a. Mr Smith said it needed people to be prepared to be legally accountable and who would be prepared to be involved in such activities as acquiring and retaining staff, training, certification – all of which was time consuming and hard work.
  - b. Mr Burgess's focus is on selling, Mrs Burling has managed staff and there is a degree of regret Mrs Burling can't continue to exercise her duties as a Director.
  - c. Mr Smith summarised that as long as it takes, the business is in safe hands but time is needed to be spent and Mr Smith and Mrs Oldroyd can't do it all.
  - d. There was great impetus when the business was new but when you walk into the shop now there is no evidence that work needs to be done – it's taken for granted. This was agreed.
23. Invited to comment, Jane Barker said that:

- a. A shop like CQF needs new people, and fresh new impetus to take the business forward.
  - b. CQF is a model that other shops aspire to.
24. Mr Smith proposed to take time to investigate all the options including Mr Slatter's proposal and the Golden Share option with legal advisors and the village, and to come back to the shareholders within 2 months.
25. It was agreed this was an acceptable way forward.
26. In summary, the Chairman agreed to:
- a. Get back in writing
  - b. Hold a further meeting
  - c. Communicate to the rest of the village and invite those interested to join in the consultation.
  - d. People new to the village with business experience could be canvassed
  - e. A document would be circulated via local businesses and, if possible, with the Parish Magazine.
27. Mrs Godfrey proposed a vote of thanks to Mr Smith and Mrs Oldroyd for the hours of work put in.
28. There was no further business for discussion.
29. The meeting was declared closed.

#### Attendees & Apologies Received

Attendees: Mr M Smith (Chairman & Director) Mrs K Burling (Director & Company Secretary) Mrs H Oldroyd (Director) Mr M.G Brewster Miss E Eden Miss J Allard Mrs M Allen Mrs P Brewster Mr N Burling Mr N Burgess Mrs K Burgess	Mr P Godfrey Mrs R Godfrey Mr D Morton Miss R Harter Ms S Jones Ms C Shadbolt Mrs E Harvey Mr M Wigley Mr N Peto Mrs E Wallace-Jones Mrs A Dewar Miss R Dodd Mr P Heath	Mr M Hinchcliffe Mrs J Hinchcliffe Mr M Slatter Mr E Stuart-Smith Mrs Y.J.S Stuart-Smith Mrs A Dewar Mrs E Reason  Advisors: Mike Leggett (Accountant) Carole Alexander (Book-keeper) Jane Barker (ORCC)	Apologies: Mrs A Morton Mrs C.D Brooks Mrs C.D Brooks Major S J M Mills Major S J M Mills Mrs C Woodward Mrs A Timpson
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## 15 Appendix Three – Background Information Available

In addition to an electronic version of this report, the following background information will be made available via the website at <http://www.chadlington.com>. If you are unable to access the information via the Internet and would like a printed copy of any of these documents, please let us know.

### 15.1 Early Documents

- ◆ Our Initial Appeal to the Village
- ◆ The Guide to Investors
- ◆ The Original Business Case

### 15.2 Annual General Meetings

- ◆ 1<sup>st</sup> Annual General Meeting 22<sup>nd</sup> August 2002 – Chairman's Notes, Minutes
- ◆ 2<sup>nd</sup> Annual General Meeting 19<sup>th</sup> November 2003 – Chairman's Notes, Minutes
- ◆ 3<sup>rd</sup> Annual General Meeting 14<sup>th</sup> November 2004 – Chairman's Notes, Minutes
- ◆ 4<sup>th</sup> Annual General Meeting 1<sup>st</sup> December 2005 – Chairman's Notes, Minutes
- ◆ 5<sup>th</sup> Annual General Meeting 27<sup>th</sup> February 2007 – Chairman's Notes, Minutes

### 15.3 Company Accounts

- ◆ Chadlington Quality Foods Ltd Accounts to 30<sup>th</sup> June 2002
- ◆ Chadlington Quality Foods Ltd Accounts to 30<sup>th</sup> June 2003
- ◆ Chadlington Quality Foods Ltd Accounts to 30<sup>th</sup> June 2004
- ◆ Chadlington Quality Foods Ltd Accounts to 30<sup>th</sup> June 2005
- ◆ Chadlington Quality Foods Ltd Accounts to 30<sup>th</sup> June 2006

### 15.4 Case Studies and References

- ◆ Countryside Agency Case Study
- ◆ ORCC Bulletin April 2007

Note: In order to read our online documents you will need to have a copy of Adobe Acrobat Reader installed on your computer. You can obtain the Reader from <http://www.adobe.com>

## 16 Appendix Four – List of Village Causes

This is a list of village causes that was prepared to illustrate the diversity of causes within the village that could benefit from the distribution of excess capital in Chadlington Quality Foods Ltd.

This is not an exhaustive list and inclusion or omission does not mean that any distribution of funds is intended or not intended. It is simply a list to illustrate the variety of ways in which the success of the shop could benefit other causes in the village. If we have missed any obvious causes please accept our apologies and do let us know.

If you would like to suggest further causes to add to this list, please do so by contacting us by the methods set out in Part 11 of this report.

- ◆ Parish Church Development Fund
- ◆ Methodist Church Facilities
- ◆ Memorial Hall Floor Replacement
- ◆ Playground
- ◆ Playgroup
- ◆ Friends of Chadlington School
- ◆ After School Club
- ◆ Automatic 30MPH Speed Signs
- ◆ Tree Planting
- ◆ Alice Hemmings Trust
- ◆ Diplock Trust
- ◆ Sports & Social Club
- ◆ Dean & Chadlington Music Festival
- ◆ Parish Magazine
- ◆ Youth Shelter
- ◆ Village Website
- ◆ Hard Play Area
- ◆ Village Business Leaflet