

Sanquhar Tile Services Limited

Report and Financial Statements

Year Ended

31 December 2002



Sanquhar Tile Services Limited

Annual report and financial statements for the year ended 31 December 2002

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Directors

J.B. Smith
D. Watters
D. Lind
F.C. Williamson

Secretary and registered office

W.J.M. Secretaries Limited, The Industrial Estate, Blackaddie Road, Sanquhar, Dumfriesshire
DG4 6DB

Company number

9331

Auditors

BDO Stoy Hayward, Ballantine House, 168 West George Street, Glasgow, G2 2PT

Bankers

Bank of Scotland, 5 Wavell Drive, Rosehill Business Park, Carlisle CA1 2ST

Solicitors

Wright, Johnston & MacKenzie, 302 St. Vincent Street, Glasgow G2 5RZ

Sanquhar Tile Services Limited

Report of the directors for the year ended 31 December 2002

The directors present their report together with the audited financial statements for the year ended 31 December 2002.

Results and dividends

The profit and loss account is set out on page 5 and shows the profit for the year.

Dividends of £83,200 on ordinary shares were paid during the year. The directors do not recommend the payment of a final dividend.

Principal activities, review of business and future developments

The company's principal activity is the manufacture and commission manufacture of carpet tiles.

Both the level of business and the year end financial position were satisfactory.

The directors do not envisage any significant changes in the company's operations in the near future.

Directors

The directors of the company during the year were:

J.B. Smith

D. Watters

D. Lind

F.C. Williamson (appointed on 1 July 2002)

No director had any beneficial interest in the share capital of the company. Their interest in the shares of the holding company are disclosed in the financial statements of that company.

Directors' responsibilities

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 year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Sanquhar Tile Services Limited

Report of the directors for the year ended 31 December 2002 (*Continued*)

Auditors

BDO Stoy Hayward have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

On behalf of the board



D. Watters

Director

17 March 2003

Sanquhar Tile Services Limited**Report of the independent auditors**

To the shareholders of Sanquhar Tile Services Limited

We have audited the financial statements of Sanquhar Tile Services Limited for the year ended 31 December 2002 on pages 5 to 21 which have been prepared under the accounting policies set out on pages 7 to 8.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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.

Sanquhar Tile Services Limited**Report of the independent auditors (*Continued*)**

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



BDO STOY HAYWARD
Chartered Accountants
and Registered Auditors
Glasgow

17 March 2003

Sanquhar Tile Services Limited

Profit and loss account for the year ended 31 December 2002

	Note	2002 £	2001 £
Turnover	2	7,657,257	7,028,589
Cost of sales		6,291,099	5,870,812
Gross profit		1,366,158	1,157,777
Distribution costs		599,530	572,447
Administrative expenses		319,019	307,807
		447,609	277,523
Other operating income		4,947	4,750
Operating profit	5	452,556	282,273
Other interest receivable and similar income	6	1,704	753
Interest payable and similar charges	7	(41,810)	(40,076)
Profit on ordinary activities before taxation		412,450	242,950
Taxation on profit on ordinary activities	8	110,708	71,652
Profit on ordinary activities after taxation		301,742	171,298
Dividends	9	83,200	58,375
Retained profit	18	218,542	112,923

All amounts relate to continuing activities.

All recognised gains and losses in the current and prior year are included in the profit and loss account.

There are no movements in shareholders' funds in the current and prior year apart from the profit for the year.

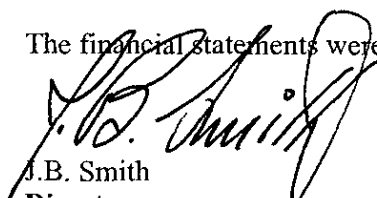
The notes on pages 7 to 21 form part of these financial statements.

Sanquhar Tile Services Limited

Balance sheet at 31 December 2002

	Note	2002 £	2002 £	2001 £	2001 £
Fixed assets					
Tangible assets	10		1,903,222		1,278,980
Current assets					
Stocks	11	1,113,654		994,846	
Debtors	12	1,560,893		1,256,583	
Cash at bank and in hand		190,274		488,967	
		<u>2,864,821</u>		<u>2,740,396</u>	
Creditors: amounts falling due within one year	13	1,771,700		1,533,849	
Net current assets			<u>1,093,121</u>		<u>1,206,547</u>
Total assets less current liabilities			<u>2,996,343</u>		<u>2,485,527</u>
Creditors: amounts falling due after more than one year	14	590,088		356,150	
Provision for liabilities and charges	15	148,257		89,921	
Accruals and deferred income	16	140,000		140,000	
		<u>878,345</u>		<u>586,071</u>	
			<u>2,117,998</u>		<u>1,899,456</u>
Capital and reserves					
Called up share capital	17	67,720		67,720	
Profit and loss account	18	2,050,278		1,831,736	
Equity shareholders' funds			<u>2,117,998</u>		<u>1,899,456</u>

The financial statements were approved by the Board on 17 March 2003.


J.B. Smith
Director

The notes on pages 7 to 21 form part of these financial statements.

Sanquhar Tile Services Limited

Notes forming part of the financial statements for the year ended 31 December 2002

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards.

The following principal accounting policies have been applied:

Cash flow statement

The company has taken advantage of the exemption conferred by Financial Reporting Standard 1 'Cash Flow Statements (Revised 1996)' not to prepare a cash flow statement on the grounds that at least 90% of the voting rights in the company are controlled within the group headed by Justcreek Limited and the company is included in consolidated financial statements.

Turnover

Turnover represents the invoiced amount of goods sold and services provided, stated net of value added tax.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets, except for freehold land, evenly over their expected useful lives. It is calculated at the following rates:

Freehold property	- depreciated over 20 years
Plant & machinery	- depreciated over varying periods ranging between 5 and 10 years depending on the anticipated life of the asset concerned
Motor vehicles	- Depreciated over 4 years

Stocks

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

Costs incurred in bringing each product to its present location and condition:

Raw materials - purchase cost on a first in, first out basis.

Work-in-progress and finished goods - cost of direct materials and labour plus attributable overheads based on normal level of activity.

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

Pension costs

The company operates a defined benefit pension scheme and pension contributions are charged to the profit and loss account to spread the cost of the pensions over the employees working lives.

Sanquhar Tile Services Limited

Notes forming part of the financial statements for the year ended 31 December 2002 (*Continued*)

1 Accounting policies (*continued*)

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that:

- deferred tax is not recognised on timing differences arising on revalued properties unless the company has entered into a binding sale agreement and is not proposing to take advantage of rollover relief; and
- the recognition of deferred tax assets is limited to the extent that the company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances arising from underlying timing differences in respect of tax allowances on industrial buildings are reversed if and when all conditions for retaining those allowances have been met.

Deferred tax balances are not discounted.

Operating leases

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the profit and loss account as incurred.

Deferred government grants

Deferred government grants represent grants received on capital expenditure, and for approved regional projects. The grants are credited to the profit and loss account from date of receipt, over either the expected useful lives of the assets concerned, or the lives of the assets relating to the regional projects.

2 Turnover

	2002 £	2001 £
Analysis by geographical market:		
United Kingdom	6,563,787	5,712,798
Europe	1,093,470	1,315,791
	7,657,257	7,028,589

Turnover is wholly attributable to the principal activity of the company.

Sanquhar Tile Services Limited

Notes forming part of the financial statements for the year ended 31 December 2002 (Continued)

3 Employees

Staff costs (including directors) consist of:

	2002	2001
	£	£
Wages and salaries	2,190,064	2,154,158
Social security costs	164,236	159,698
Other pension costs	197,219	182,709
	2,551,519	2,496,565

The average number of employees (including directors) during the year was as follows:

	2002	2001
	Number	Number
Management and administration	10	10
Production, installation and sales	100	99
	110	109

4 Directors' remuneration

	2002	2001
	£	£
Directors' emoluments	212,127	199,255

There were 3 directors in the company's defined benefit pension scheme during the year (2001 - 4).

The total amount payable to the highest paid director in respect of emoluments was £66,806 (2001 - £59,370). He is a member of a defined benefit scheme, under which the accrued pension at the year end was £17,694 (2001 - £16,832).

Sanquhar Tile Services Limited**Notes forming part of the financial statements for the year ended 31 December 2002 (Continued)**

5 Operating profit

	2002 £	2001 £
This is arrived at after charging:		
Depreciation of tangible fixed assets	275,870	187,101
Loss on disposal of tangible fixed assets	9,402	-
Hire of plant and machinery - operating leases	24,943	37,588
Audit services	16,500	16,000
	<u> </u>	<u> </u>

Depreciation includes £135,709 (2001 - £70,454) charged on assets held under hire purchase contracts.

6 Other interest receivable and similar income

	2002 £	2001 £
Bank deposits	1,704	753
	<u> </u>	<u> </u>

7 Interest payable and similar charges

	2002 £	2001 £
Bank loans and overdrafts	15,405	18,304
Hire purchase contracts	26,405	21,772
	<u> </u>	<u> </u>
	<u>41,810</u>	<u>40,076</u>

Sanquhar Tile Services Limited

Notes forming part of the financial statements for the year ended 31 December 2002 (Continued)

8 Taxation on profit on ordinary activities

	2002 £	2002 £	2001 £	2001 £
<i>UK Corporation tax</i>				
Current tax on profits of the UK corporation tax	43,882		27,446	
Adjustment in respect of previous periods	(1,058)		(8,101)	
Group relief	4,751		12,661	
Consortium relief	4,797		11,692	
Consortium relief - prior year	-		7,483	
Total current tax		52,372		51,181
<i>Deferred tax</i>				
Origination and reversal of timing differences	56,388		20,471	
Adjustment in respect of previous periods	1,948		-	
Movement in deferred tax provision		58,336		20,471
Taxation on profit on ordinary activities		110,708		71,652

Sanquhar Tile Services Limited

Notes forming part of the financial statements for the year ended 31 December 2002 (*Continued*)

8 Taxation on profit on ordinary activities (*Continued*)

The tax assessed for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2002 £	2001 £
Profit on ordinary activities before tax	412,450	242,950
Profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2001 - 30%)	123,735	72,885
Effect of:		
Expenses not deductible for tax purposes	3,287	3,457
Capital allowances for period in excess of depreciation	(32,343)	3,103
Deductions allowed	(26,354)	(18,137)
Adjustment to tax charge in respect of previous periods	(1,058)	(8,101)
Consortium relief - prior year	-	7,483
Marginal small companies rate relief	(14,895)	(9,509)
Current tax charge for period	52,372	51,181

9 Dividends

	2002 £	2001 £
<i>Equity shares</i>		
Ordinary shares		
Interim and final paid of £1.23 (2001 - £0.86) per share	83,200	58,375

Sanquhar Tile Services Limited

Notes forming part of the financial statements for the year ended 31 December 2002 (Continued)

10 Tangible fixed assets

	Freehold land and buildings £	Plant and machinery £	Motor vehicles £	Total £
<i>Cost</i>				
At 1 January 2002	647,639	2,320,099	-	2,967,738
Additions	5,584	882,233	21,697	909,514
Disposals	-	(103,286)	-	(103,286)
At 31 December 2002	653,223	3,099,046	21,697	3,773,966
<i>Depreciation</i>				
At 1 January 2002	236,690	1,452,068	-	1,688,758
Provided for the year	30,802	240,729	4,339	275,870
Disposals	-	(93,884)	-	(93,884)
At 31 December 2002	267,492	1,598,913	4,339	1,870,744
<i>Net book value</i>				
At 31 December 2002	385,731	1,500,133	17,358	1,903,222
At 31 December 2001	410,949	868,031	-	1,278,980

Sanquhar Tile Services Limited

Notes forming part of the financial statements for the year ended 31 December 2002 (*Continued*)

The net book value of, and depreciation charge for the year on, tangible fixed assets include assets held under hire purchase contracts as follows:

	2002 £	2001 £
<i>Net book value</i>		
Plant and machinery	986,106	471,017
Motor vehicles	13,600	-
	<u>999,706</u>	<u>471,017</u>
<i>Depreciation charged</i>		
Plant and machinery	132,309	70,454
Motor vehicles	3,400	-
	<u>135,709</u>	<u>70,454</u>

11 Stocks

	2002 £	2001 £
Raw materials and consumables	728,246	552,945
Work in progress	3,547	1,293
Finished goods and goods for resale	381,861	440,608
	<u>1,113,654</u>	<u>994,846</u>

Sanquhar Tile Services Limited**Notes forming part of the financial statements for the year ended 31 December 2002 (Continued)****12 Debtors**

	2002 £	2001 £
Trade debtors	1,286,628	955,050
Amounts owed by group undertakings	201,563	105,786
Other debtors	5,333	154,372
Prepayments and accrued income	67,369	41,375
	<u>1,560,893</u>	<u>1,256,583</u>

All amounts shown under debtors fall due for payment within one year.

13 Creditors: amounts falling due within one year

	2002 £	2001 £
Bank loans and overdrafts (secured)	31,000	31,000
Trade creditors	893,695	875,766
Corporation tax	43,882	27,446
Other taxation and social security	190,548	144,176
Obligations under hire purchase contracts	230,658	119,800
Other creditors	136,277	143,933
Accruals and deferred income	245,640	191,728
	<u>1,771,700</u>	<u>1,533,849</u>

14 Creditors: amounts falling due after more than one year

	2002 £	2001 £
Bank loans	126,583	155,000
Obligations under hire purchase contracts	463,505	201,150
	<u>590,088</u>	<u>356,150</u>

Sanquhar Tile Services Limited**Notes forming part of the financial statements for the year ended 31 December 2002 (Continued)****14 Creditors: amounts falling due after more than one year (Continued)**

Maturity of debt:

	Loans 2002 £	Loans 2001 £	Hire Purchase 2002 £	Hire Purchase 2001 £
In one year or less, or on demand	31,000	31,000	230,658	119,800
In more than one year but not more than two years	31,000	31,000	163,116	119,800
In more than two years but not more than five years	93,000	93,000	300,389	81,350
In more than five years	2,583	31,000	-	-
	126,583	155,000	463,505	201,150

Included in creditors due after more than one year are the following amounts repayable in more than five years:

	2002 £	2001 £
Loans	2,583	31,000

The hire purchase obligations are secured on the assets being purchased.

A loan of £310,000 was received from the Bank of Scotland on 5 January 1998. The loan is repayable in equal monthly instalments by December 2007 and bears interest at 1% over base rate. The bank holds a standard security over a property owned by the company and a floating charge over its whole assets.

Sanquhar Tile Services Limited

Notes forming part of the financial statements for the year ended 31 December 2002 (*Continued*)

15 Provision for liabilities and charges

		Deferred taxation £
At 1 January 2002		89,921
Charged to profit and loss account		58,336
At 31 December 2002		148,257
<i>Deferred taxation</i>		
	2002 £	2001 £
Accelerated capital allowances	175,934	121,837
Sundry timing differences	(27,677)	(31,916)
	148,257	89,921

16 Accruals and deferred income

	2002 £	2001 £
Deferred income		
At 1 January 2002	140,000	100,000
Received in the year	75,000	100,000
Released to the profit and loss in the year	(75,000)	(60,000)
	140,000	140,000

17 Share capital

	2002 £	Authorised 2001 £	Allotted, called up and fully paid 2002 £	2001 £
<i>Equity share capital</i>				
Ordinary shares of £1 each	90,000	90,000	67,720	67,720

Sanquhar Tile Services Limited

Notes forming part of the financial statements for the year ended 31 December 2002 (Continued)

18 Reserves

	Profit and loss account £
At 1 January 2002	1,831,736
Profit for the year	218,542
At 31 December 2002	2,050,278

19 Reconciliation of movements in shareholders' funds

	2002 £	2001 £
Profit for the year	301,742	171,298
Dividends	(83,200)	(58,375)
	218,542	112,923
Opening shareholders' funds	1,899,456	1,786,533
Closing shareholders' funds	2,117,998	1,899,456

20 Pensions

The company operates a defined benefit pension scheme for employees. The assets of the scheme are held in a separate Trustee administered fund. The pension cost is assessed in accordance with the advice of a professionally qualified actuary on the basis of the valuations using the projected unit method.

The pension cost for the year ended 31 December 2002 was £164,419 (2001 - £156,359). The contributions made in the period 1 January 2002 to 31 December 2002 for the company were at the rates of 8.225% and 6.225% of Pensionable Salaries for Category A members and Category B members respectively. Employee contributions were 3% of Pensionable Salaries for Category A members and 5% of Pensionable Salaries for Category B members. Contribution rates will be reviewed at the date of the next actuarial valuation on 1 April 2005.

In addition to the above, the company contributes to a life assurance scheme. The cost of providing life cover during the year was £32,800 (2001- £26,350).

20 Pensions (continued)

A full actuarial valuation of the defined benefit scheme was carried out at 1 April 2002 and updated to 31 December 2002 by a qualified independent actuary on a FRS17 basis. The major assumptions at 31 December 2002 used by the actuary were:

	2002	2001
Rate of increase in inflation	2.2%	2.2%
Salary escalation	3.7%	3.7%
Pension increases	3.0%	3.0%
Discount rate	5.7%	5.7%
Deferred pension increases	3.0%	3.0%

The assets in the scheme and the expected rate of return at 31 December 2002 were:

	Long-term rate of return expected at 2002	Value at 2002 £'000	Long-term rate of return expected at 2001	Value at 2001 £'000
Equities	6.9%	1,507	6.9%	1,716
Bonds	5.7%	239	5.7%	271
Other - property	5.3%	93	5.3%	107
- cash	5.3%	26	5.3%	42
Cash on deposit		58		46
Total market value of assets		1,923		2,182
Present value of scheme liabilities		(1,810)		(2,118)
Surplus in scheme		113		64
Related deferred tax liability		(34)		(13)
Net pension asset on a FRS17 basis		79		51

Sanquhar Tile Services Limited

Notes forming part of the financial statements for the year ended 31 December 2002 (Continued)

20 Pensions (continued)

The effect on the profit and loss reserve if the pension scheme asset were incorporated into the financial statements is as follows:

	2002 £'000	2001 £'000
Profit and loss reserve excluding pension asset	2,050	1,832
Pension reserve	79	51
Profit and loss reserve	2,129	1,883

21 Commitments under operating leases

The company had annual commitments under non-cancellable operating leases as set out below:

	2002 Other £	2001 Other £
Operating leases which expire:		
Within one year	2,628	14,532
In two to five years	17,659	9,748
	20,287	24,280

22 Commitments on behalf of group and other undertakings

A standard security over a property owned by the company to the extent of £500,000 and a floating charge over its assets have been granted to Mirate Investments B.V. , a director and shareholder in the parent undertaking, Justcreek Limited, in support of a guarantee given to Mirate Investments B.V. in respect of borrowings by Justcreek Limited.

The company has provided a guarantee to the Bank of Scotland in respect of the hire purchase borrowings of Versatek Limited. At 31 December 2002 the outstanding liability due by Versatek Limited was £175,039.

Sanquhar Tile Services Limited

Notes forming part of the financial statements for the year ended 31 December 2002 (Continued)

23 Capital commitments

	2002 £	2001 £
Contracted but not provided for	10,671	516,475

24 Related party disclosures

Balances due to or by group undertakings are included in note 12. The company has taken advantage of the exemptions to disclose group transactions as conferred by section 3(c) of Financial Reporting Standard No. 8.

During the year the company invoiced charges of £208,341 to Versatek Limited a company in which Justcreek Limited, the parent company of Sanquhar Tile Services Limited, holds 50% of the issued share capital and of which J.B. Smith and D. Watters are directors. The net balance due by Versatek Limited at 31 December 2002 was £22,051.

During the year the company invoiced charges of £3,600 to Styletuft Limited, a company in which Justcreek Limited, the parent company of Sanquhar Tile Services Limited, holds 25% of the issued share capital and in which J.B. Smith and D. Watters are shareholders and directors. The net balance due by Styletuft Limited at 31 December 2002 was £nil.

The balance due to Styletuft Limited at 31 December 2002 for charges in previous years was £14,881.

25 Ultimate parent company

The directors regard Justcreek Limited as the company's ultimate parent company.

Justcreek Limited, controlled by J.B. Smith, is the only company within the group of companies for which group financial statements are drawn up and of which the company is a member.