

Davidson Brothers (Shotts) Limited
Annual report
for the year ended 31 July 2002

Registered Number SCO25270



Davidson Brothers (Shotts) Limited

Annual report for the year ended 31 July 2002

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Davidson Brothers (Shotts) Limited

Directors and Advisors for the year ended 31 July 2002

Directors

W M Davidson

W G Davidson

W G Souter

T Irvine (resigned 31 March 2003)

Secretary and registered office

W Salton

Gray Street

Shotts

Lanarkshire

ML7 5EZ

Registered auditors

PricewaterhouseCoopers LLP

Kintyre House

209 West George Street

Glasgow

G2 2LW

Solicitors

Dickson Minto WS

11 Walker Street

Edinburgh

EH3 7NE

Bankers

Bank of Scotland

225 Station Road

Shotts

ML7 4AW

Davidson Brothers (Shotts) Limited

Directors' report for the year ended 31 July 2002

The directors present their report and the audited financial statements for the year ended 31 July 2002.

Principal activities

The principal activity of the company is the manufacture and sale of animal feedstuffs.

Review of business and future developments

The year ended July 2002 has seen a continuation of the difficult trading conditions for UK livestock farmers referred to in last year's report. Despite this, the directors are pleased to report a 9% increase in turnover, especially against the background of decline in the overall market for its products.

While the outlook for livestock farming in general remains uncertain, the directors remain confident about the company's long term development prospects. Significant ongoing investment in production and distribution facilities continues with the accounts revealing further investment of almost £1.2 million during the year under review.

Results and dividends

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

The directors do not recommend the payment of a dividend. The company's profit after taxation for the year of £218,535 (2001: loss £87,985) has been transferred to reserves.

Directors and their interests

The directors of the company who served during the year, unless otherwise stated, are listed on page 1.

The interests of the directors in the shares of the company were as follows:

	Number of ordinary shares of £1 each	
	31 July 2002 £	1 August 2001 £
WM Davidson	97,147	97,147
WG Davidson	30,256	30,256

Other than shown above, no director had any shares or debentures in the company at 31 July 2002.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 July 2002 and that applicable accounting standards have been followed.

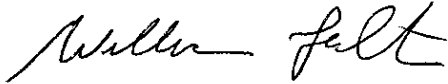
The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets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

Davidson Brothers (Shotts) Limited

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 20 January 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

By Order of the Board



W Salton
Secretary
16 May 2003

Independent Auditors' report to the members of Davidson Brothers (Shotts) Limited

We have audited the financial statements, which comprise the profit and loss account, the statement of total recognised gains and losses, the historical cost profits, the balance sheet, the cash flow statement and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and 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 issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

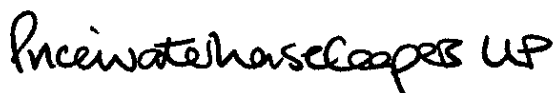
Basis of audit opinion

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

Opinion

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



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Glasgow

16 May 2003

Davidson Brothers (Shotts) Limited

Profit and loss account for the year ended 31 July 2002

	Note	2002 £	2001 £
Turnover	1	13,116,054	12,001,495
Cost of sales		(8,622,766)	(7,863,534)
Gross profit		4,493,288	4,137,961
Net operating expenses	2	(4,062,428)	(3,565,639)
Operating profit		430,860	572,322
Interest payable	5	(97,813)	(200,338)
Profit on ordinary activities before taxation	6	333,047	371,984
Tax on profit on ordinary activities	7	(114,512)	(459,969)
Profit/(loss) for the financial year	18	218,535	(87,985)

All of the turnover and profit are derived from continuing operations.

The company has no recognised gains and losses other than the results above and therefore no separate statement of total recognised gains and losses has been presented.

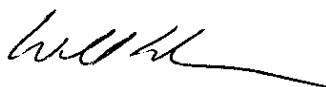
There is no difference between the loss on ordinary activities before taxation and the loss for the period stated above and their historical cost equivalents.

Davidson Brothers (Shotts) Limited

Balance sheet as at 31 July 2002

	Note	2002 £	2001 £
Fixed assets			
Tangible assets	8	5,706,412	5,126,832
Investments	9	1	1
		5,706,413	5,126,833
Current assets			
Stocks	10	760,214	694,370
Debtors	11	2,235,806	2,280,332
Cash at bank and in hand		703	548
		2,996,723	2,975,250
Creditors: amounts falling due within one year	12	(3,347,180)	(3,257,169)
Net current liabilities		(350,457)	(281,909)
Total assets less current liabilities		5,355,956	4,844,914
Creditors: amounts falling due in more than one year	13	(1,093,573)	(890,000)
Provisions for liabilities and charges	14	(622,262)	(505,262)
Accruals and deferred income	15	(113,245)	(141,311)
Net assets		3,526,876	3,308,341
Capital and reserves			
Called up share capital	17	139,940	139,940
Capital redemption reserve	18	12,537	12,537
Revaluation reserve	18	370,000	370,000
Profit and loss account	18	3,004,399	2,785,864
Equity shareholders' funds	19	3,526,876	3,308,341

The financial statements on pages 5 to 20 were approved by the board of directors on 16 May 2003 and were signed on its behalf by:



W M Davidson
Director

Davidson Brothers (Shotts) Limited

Cash flow statement for the year ended 31 July 2002

	Note	2002 £	2001 £
Net cash inflow from operating activities	20	735,720	170,072
Returns on investments and servicing of finance			
Interest paid on hire purchase contracts		(2,139)	(2,744)
Interest paid		(95,108)	(214,015)
Net cash outflow from returns on investments and servicing of finance		(97,247)	(216,759)
Taxation			
UK corporation tax		(358,828)	53,104
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(1,098,561)	(1,020,252)
Sale of fixed assets		211,380	2,808,435
Net cash (outflow)/inflow from capital expenditure and financial investment		(887,181)	1,788,183
Cash (outflow)/inflow before management of liquid resources and financing		(607,536)	1,794,600
Financing			
New borrowings		514,025	-
Repayment of borrowings		(263,537)	(1,010,189)
Repayments of principal under hire purchase contracts		(22,276)	(18,514)
Net cash inflow/(outflow) from financing		228,212	(1,028,703)
(Decrease)/increase in cash in the period	21	(379,324)	765,897

Davidson Brothers (Shotts) Limited

Accounting policies

Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention as modified by revaluation of certain assets.

Tangible fixed assets

Tangible fixed assets are stated at their purchase price, together with any incidental expenses of acquisition.

Provision for depreciation is made so as to write off the cost of tangible fixed assets on a straight line basis over the expected useful economic life of the assets concerned. The principal annual rates used for this purpose are:

Freehold buildings	2%
Plant and machinery	10%
Motor vehicles	20% and 33%
Office equipment	10%
Computer equipment	20%

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Where fixed assets are financed by leasing agreements, which transfer to the company substantially all the benefits and risks of ownership, the assets are treated as if they had been purchased outright and are included in tangible fixed assets. The capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit. Assets held under finance leases are depreciated over the useful lives of equivalent owned assets.

Government grants

Grants received and receivable in respect of qualifying capital expenditure are credited to a government grant reserve and released to the profit and loss account over the expected useful lives of the related assets. Grants awarded for training and consultancy are credited to the profit and loss account in the same period as the associated costs.

Investment properties

Investment properties are included in the balance sheet at their open market value at the balance sheet date. Depreciation is not provided on investment properties as they are not held for consumption but investment and the directors consider that systematic annual depreciation would be inappropriate.

Stocks

Stocks are stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation and, where appropriate, the cost of conversion from their existing state to a finished condition.

Davidson Brothers (Shotts) Limited

Turnover

Turnover, which excludes value added tax and trade discounts, represents the invoiced value of goods and services supplied.

Deferred taxation

Tax deferred is provided on timing differences arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future. Deferred tax balances recognised have not been discounted.

Pension scheme arrangements

The company operates a defined contribution pension scheme. The pension cost charge represents contributions payable by the company to the fund.

Davidson Brothers (Shotts) Limited

Notes to the financial statements for the year ended 31 July 2002

1 Turnover

	2002	2001
	£	£
Manufactured product	12,281,187	10,964,300
Raw materials and bought in items	834,867	1,037,195
	13,116,054	12,001,495

2 Net operating expenses

	2002	2001
	£	£
Distribution costs	1,148,891	1,069,123
Administration expenses	3,075,513	2,986,884
	4,224,404	4,056,007
Less: other operating income	(161,976)	(490,368)
Net operating expenses	4,062,428	3,565,639

3 Directors' emoluments

The remuneration paid to the directors was:

	2002	2001
	£	£
Aggregate directors' emoluments	152,026	150,224
Company contributions to money purchase scheme	85,344	7,600

Pension costs were accrued for 3 directors (2001: 3) as members of defined contribution pension schemes.

Davidson Brothers (Shotts) Limited

4 Employee information

By activity	2002	2001
	Number	Number
Production	13	13
Selling and distribution	32	35
Administration	7	7
	52	55

Staff costs (for the above persons)	2002	2001
	£	£
Wages and salaries	1,109,654	1,148,557
Social security costs	108,815	123,233
Other pensions costs (note 16)	105,955	32,039
	1,324,424	1,303,829

5 Interest payable

	2002	2001
	£	£
On bank loans, overdrafts and other loans:		
Repayable within 5 years, not by instalments	27,634	104,780
Repayable within 5 years, by instalments	68,040	92,814
	95,674	197,594
On hire purchase contracts	2,139	2,744
	97,813	200,338

Davidson Brothers (Shotts) Limited

6 Profit on ordinary activities before taxation

	2002 £	2001 £
Profit on ordinary activities before taxation is stated after crediting:		
Amortisation of government grants	28,066	28,066
Gain on disposal of fixed assets	53,686	44,871
After charging:		
Depreciation charge for the year:		
- tangible owned fixed assets	439,666	361,408
- tangible fixed assets held under hire purchase contracts	19,660	19,219
Auditors' remuneration:		
- audit	13,300	12,000
- other services	4,638	5,639
Hire of plant and machinery – operating leases	281,318	241,855

7 Taxation

	2002 £	2001 £
United Kingdom corporation tax		
- Current	23,455	(349,748)
- Deferred	(117,000)	(109,756)
Over/(under) provision in respect of prior years:		
- Current	(20,967)	-
- Deferred	-	(465)
	(114,512)	(459,969)

Davidson Brothers (Shotts) Limited

7 Taxation (continued)

Factors affecting tax charge for the period:

	2002 £	2001 £
Profit on ordinary activities before tax	333,047	371,984
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2000: 30%)	99,914	109,188
Effects of:		
Expenses not deductible for tax purposes	(4,565)	347,948
Adjustments to tax in respect of prior period	20,967	465
Adjustments in respect of CT rates	(1,804)	2,368
	114,512	459,969
Effect of deferred tax	(117,000)	(110,221)
	(2,488)	349,748

8 Tangible fixed assets

	Investment properties £	Freehold land and buildings £	Motor vehicles £	Plant and machinery £	Computer and office equipment £	Total £
Cost or valuation						
At 1 August 2001	750,150	1,682,630	1,493,704	6,856,024	553,473	11,335,981
Additions	-	-	609,723	584,677	2,200	1,196,600
Disposals	-	-	(455,073)	-	-	(455,073)
At 31 July 2002	750,150	1,682,630	1,648,354	7,440,701	555,673	12,077,508
Depreciation						
At 1 August 2001	-	307,437	863,798	4,577,784	460,130	6,209,149
Charge for year	-	29,804	222,318	180,132	27,072	459,326
Disposals	-	-	(297,379)	-	-	(297,379)
At 31 July 2002	-	337,241	788,737	4,757,916	487,202	6,371,096
Net book value						
At 31 July 2002	750,150	1,345,389	859,617	2,682,785	68,471	5,706,412
At 31 July 2001	750,150	1,375,193	629,906	2,278,240	93,343	5,126,832

The net book value of tangible fixed assets held under hire purchase contracts at 31 July 2002 was £85,780 (2001: £5,622). The Directors, who are not independent qualified valuers, last valued the Investment Properties at 31 July 2000 based on independent professional advice.

Davidson Brothers (Shotts) Limited

9 Investments

	2002	2001
	£	£
Interest in joint venture	1	1

Name of undertaking	Country of registration	Description of shares held	Proportion held	Principal activities
Dunaskin Street Limited	Scotland	Ordinary £1 shares	50%	House construction

Dunaskin Street Limited is an equal joint venture between Davidson Brothers (Shotts) Limited and Morrison Homes Limited.

10 Stocks

	2002	2001
	£	£
Raw materials and consumables	660,973	603,352
Finished goods	66,830	59,914
Vehicle and machine spares and fuel	32,411	31,104
	760,214	694,370

11 Debtors

	2002	2001
	£	£
Amounts falling due within one year:		
Trade debtors	1,078,077	1,269,185
Other debtors	1,083,765	630,554
Corporation Tax	11,568	-
Prepayments and accrued income	62,396	380,593
	2,235,806	2,280,332

Davidson Brothers (Shotts) Limited

12 Creditors – Amounts falling due within one year

	2002	2001
	£	£
Bank loans and overdrafts (see 13 (a))	1,533,296	1,051,012
Trade creditors	1,291,073	1,347,302
Amounts owed to joint venture company	1	1
Obligations under hire purchase agreements (see 13 (b))	24,040	4,167
Corporation tax	-	349,748
Other taxation and social security payable	29,691	25,794
Accruals	469,079	479,145
	3,347,180	3,257,169

13 Creditors – Amounts falling due in more than one year

	2002	2001
	£	£
Bank loans (see (a) below)	852,683	690,000
Obligations under hire purchase agreements (see (b) below)	55,890	-
Directors loan (see (c) below)	185,000	200,000
	1,093,573	890,000

(a) Bank loans and overdrafts

Bank loans and overdrafts amounting to £2,385,979 (2001: £1,741,012) are secured by a standard security over land at Gray Street, Shotts, the assignation of an insurance policy on the life of W M Davidson and a bond and floating charge over all the assets of the company.

The annual interest rate applied to the company's bank loan was 2.25% above the bank's base rate.

	2002	2001
	£	£
Bank loans are repayable as follows:		
One year or less on demand	282,805	180,000
Between one and two years	282,805	180,000
Between two and five years	569,878	510,000
	1,135,488	870,000

Davidson Brothers (Shotts) Limited

13 Creditors – Amounts falling due in more than one year (continued)

(b) Obligations under hire purchase agreements

The future minimum payments to which the company is committed under hire purchase contracts are as follows:

	2002	2001
	£	£
Due within one year	24,040	4,167
Between two and five years	55,890	-
	79,930	4,167

(c) Directors loan

The Directors' loan is interest free and has no fixed term of repayment.

14 Provisions for liabilities and charges

Provision has been made in the financial statements for deferred taxation, as follows:

Deferred taxation	2002	2001
	£	£
Tax effect on timing differences because of:		
Excess of tax allowances over depreciation	625,253	508,211
Other	(2,991)	(2,949)
	622,262	505,262

The movement on the provision for deferred taxation is as follows:

	£
At 1 August 2001	505,262
Charged to profit and loss account	117,000
At 31 July 2002	622,262

Davidson Brothers (Shotts) Limited

15 Accruals and deferred income

	Government grants
	£
At 1 August 2001	141,311
Release in year	28,066
At 31 July 2002	113,245

16 Pension commitments

The company operates a defined contribution pension scheme for certain employees. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £105,955 (2001: £32,039).

17 Called up share capital

	2002	2001
	£	£
Authorised		
184,131 ordinary shares of £1 each	184,131	184,131
Allotted, called up and fully paid		
139,940 ordinary shares of £1 each	139,940	139,940

18 Reserves

	Capital redemption reserve	Revaluation reserve	Profit and loss account
	£	£	£
At 1 August 2001	12,537	370,000	2,785,864
Profit for the financial year	-	-	218,535
At 31 July 2002	12,537	370,000	3,004,399

Davidson Brothers (Shotts) Limited

19 Reconciliation of movements in shareholders' funds

	2002	2001
	£	£
Opening shareholders' funds	3,308,341	3,671,470
Prior year adjustment	-	(275,144)
Re-stated	3,308,341	3,396,326
Profit for the financial year	218,535	333,078
Closing shareholders' funds	3,526,876	3,641,419

20 Reconciliation of operating profit to net cash inflow from operating activities

Continuing operating activities	2002	2001
	£	£
Operating profit	430,860	572,322
Depreciation on tangible fixed assets	459,326	380,627
Amortisation of grants	(28,066)	(28,066)
Gain on sale of tangible fixed assets	(53,686)	(1,244,871)
Increase in stocks	(65,844)	(238,204)
Decrease/(increase) in trade debtors	191,108	(23,693)
Decrease/(increase) in prepayments	318,197	(229,697)
Increase in other debtors	(453,211)	(156,450)
Decrease/(increase) in trade creditors	(56,229)	730,039
Increase/(decrease) in other taxation and social security	3,897	(2,544)
(Decrease)/increase in accruals	(10,632)	410,609
Net cash inflow from continuing operating activities	735,720	170,072

Davidson Brothers (Shotts) Limited

21 Reconciliation of net cash flow to movement in net debt

	2002	2001
	£	£
(Decrease)/increase in cash in the year	(379,324)	765,897
Cash (inflow)/outflow from increase in debt	(228,212)	1,028,703
Change in net debt resulting from cash flows	(607,536)	1,794,600
New finance leases	(98,039)	-
Movement in net debt in the year	(705,575)	1,794,600
Net debt at 1 August 2001	(1,944,631)	(3,739,231)
Net debt at 31 July 2002	(2,650,206)	(1,944,631)

22 Analysis of net debt

	At 1 August 2001	Cashflow	Other non-cash changes	At 31 July 2002
	£	£	£	£
Net cash				
Cash in hand and in bank	548	155	-	703
Overdrafts	(871,012)	(379,479)	-	(1,250,491)
	(870,464)	(379,324)	-	(1,249,788)
Debt				
Loans due after one year	(690,000)	(342,683)	180,000	(852,683)
Loans due within one year	(180,000)	77,195	(180,000)	(282,805)
Hire purchase contracts	(4,167)	22,276	(98,039)	(79,930)
Directors loan	(200,000)	15,000	-	(185,000)
	(1,074,167)	(228,212)	(98,039)	(1,400,418)
Total net debt	(1,944,631)	(607,536)	(98,039)	(2,650,206)

23 Capital commitments

	2002	2001
	£	£
Capital expenditure that has been contracted for but has not been provided of in the financial statements	-	-

Davidson Brothers (Shotts) Limited

24 Financial instruments

At 31 July 2002, the company had annual commitments under non-cancellable operating leases as follows:

	2002	2001
	£	£
Expiring within one year	-	8,501
Expiring between two and five years inclusive	300,240	266,300
	300,240	274,801

25 Related party transactions

The directors of the company consider that there have been related party transactions between Davidson Brothers (Shotts) Limited, Locom Engineering Limited and Davidson Brothers (Shotts) Limited Directors Retirement and Death Benefit Scheme by virtue of the fact that W M Davidson, a director and shareholder of Davidson Brothers (Shotts) Limited is also a shareholder of Locom Engineering Limited and a trustee of Davidson Brothers (Shotts) Limited Directors Retirement and Death Benefit Scheme.

The directors also consider that there have been related party transaction between Davidson Brothers (Shotts) Limited and Dunaskin Street Limited by virtue of the fact that Dunaskin Street Limited is an equal joint venture between Davidson Brothers (Shotts) Limited and Morrison Homes Limited.

The value of transactions during the year to 31 July 2002 and the balances outstanding at year end 31 July 2002 between Davidson Brothers (Shotts) Limited, Locom Engineering Limited, Davidson Brothers (Shotts) Limited Directors Retirement and Death Benefit Scheme and Dunaskin Street Limited are as follows:

	Locom Engineering Limited £	Retirement scheme £	Dunaskin Street Limited £
Sales in the normal course of trade to:	36,769	-	-
Purchases/services in the normal course of trade from:	90,754	-	-
Amounts due from:	339,751	-	-
Amounts due to:	98,579	53,863	-

26 Ultimate controlling party

Mr W M Davidson, a director, is the controlling party of the company by virtue of his controlling interest in the company's equity capital.