Arthur McKay & Company (Electrical Contractors) Limited

Directors' report and financial statements

Registered number SC 33489

31 October 2002

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Directors' report

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

Statement of 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 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Principal activities

The principal activity of the company is in the field of building services, comprising electrical, mechanical and IT services.

Business review

The results of the company for the year are set out on page 4.

Dividend and transfer to reserves

The directors declared and paid dividends during the year amounting to £12,192 on preferred ordinary shares and £96,000 on ordinary shares. No final dividend is proposed. After deducting the total dividends of £108,192 the profit for the year retained in the company is £377,401.

Preferred share capital buy back

On 7 December 2001, the company bought back 1,000 £1 preferred ordinary shares at a premium of £260 per share.

Directors and directors' interests

The directors who held office during the year were as follows:

C Herd
PA McKay
A Davidson
WS Moodie
D Cruickshank

Directors' report *(continued)*

Directors and directors' interests *(continued)*

The directors who held office at the end of the financial year had the following interests in the ordinary shares of the company:

	Class of share	Interest at end of year	Interest at beginning of year
C Herd	Ordinary shares	2,000	2,000
PA McKay	Ordinary shares	2,000	2,000

Political and charitable contributions

The company made no political contributions during the year *(2001: nil)*. Donations to UK charities amounted to £3,133 *(2001: £3,707)*.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP will be submitted at the annual general meeting.

By order of the board

PA McKay
Secretary

5 August 2003

KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG
United Kingdom

Independent auditors' report to the members of Arthur McKay & Company (Electrical Contractors) Limited

We have audited the financial statements on pages 4 to 14.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 1, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 as at 31 October 2002 and its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

5 August 2003

Profit and loss account

for the year ended 31 October 2002

	Note	2002 £	2001 £
Turnover	2	**12,525,482**	12,218,320
Increase in work in progress		**680,424**	604,815
Raw materials and consumables		**(5,525,181)**	(5,528,048)
Staff and subcontractor costs		**(5,925,597)**	(5,771,032)
Depreciation and other amounts written off fixed assets		**(146,972)**	(161,213)
Other operating charges		**(893,050)**	(670,055)
Other operating income		**16,762**	11,160
Operating profit		**731,868**	703,947
Income from other fixed asset investments		**338**	336
Interest receivable and similar income	6	**60,325**	62,176
Interest payable and similar charges	7	**(36,202)**	(50,520)
Profit on ordinary activities before taxation	3	**756,329**	715,939
Tax on profit on ordinary activities	8	**(270,736)**	(247,622)
Profit for the financial year		**485,593**	468,317
Dividends	9	**(108,192)**	(182,832)
Retained profit for the financial year	18	**377,401**	285,485

Other than the profit for the current and preceding financial year, there have been no other recognised gains or losses.

Balance sheet
at 31 October 2002

	Note	£	2002 £	£	2001 £
Fixed assets					
Tangible assets	*10*		**1,540,847**		1,578,360
Investments	*11*		**8,417**		10,886
			1,549,264		1,589,246
Current assets					
Stocks	*12*	**2,176,711**		1,506,102	
Debtors	*13*	**1,167,848**		1,370,539	
Cash at bank and in hand		**1,344,436**		1,220,756	
		4,688,995		4,097,397	
Creditors: amounts falling due within one year	*14*	**(3,897,907)**		(3,406,673)	
Net current assets			**791,088**		690,724
Total assets less current liabilities			**2,340,352**		2,279,970
Creditors: amounts falling due after one year	*15*		**(569,535)**		(640,629)
Provisions for liabilities and charges	*16*		**(81,871)**		(66,796)
Net assets			**1,688,946**		1,572,545
Capital and reserves					
Called up share capital	*17*		**4,000**		5,000
Capital redemption reserve	*18*		**1,000**		-
Profit and loss account	*18*		**1,683,946**		1,567,545
Equity shareholders' funds	*19*		**1,688,946**		1,572,545

These financial statements were approved by the board of directors on 5 August 2003 and were signed on its behalf by:

C Herd
Director

PA McKay
Director

Cash flow statement

for the year ended 31 October 2002

	Note	£	2002 £	£	2001 £
Net cash inflow from operating activities	*21*		**957,038**		1,158,669
Returns on investments and servicing of finance					
Interest received		**60,325**		62,388	
Dividend income received		**338**		336	
Interest paid		**(36,202)**		(50,520)	
Net cash inflow from returns on investments and servicing of finance			**24,461**		12,204
Taxation					
Corporation tax paid			**(237,191)**		(82,422)
Capital expenditure and financial investment					
Payments to acquire tangible assets		**(124,845)**		(263,819)	
Payments to acquire investments		**(829)**		-	
Receipts from sale of tangible assets		**10,600**		48,220	
Net cash outflow from investing activities			**(115,074)**		(215,599)
Equity dividends paid			**(175,024)**		(151,043)
Cash inflow before management of liquid resource and financing			**454,210**		721,809
Financing					
Repayment of secured loan		**(69,530)**		(59,982)	
Buy back of preference shares		**(261,000)**		-	
Net cash outflow from financing			**(330,530)**		(59,982)
Increase in cash in the year			**123,680**		661,827

Reconciliation of net cash flow to movement in net funds

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Increase in cash in the year	**123,680**	661,827
Cash outflow from loan repayments	**69,530**	59,982
Movement in net funds in the year	**193,210**	721,809
Net funds/(debt) at the start of the year	**498,344**	(223,465)
Net funds at the end of the year	**691,554**	498,344

Notes

(forming part of the financial statements)

1 Accounting policies

Basis of preparation

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

The company is exempt by virtue of s248 of the Companies Act 1985 from the requirement to prepare group accounts. The financial statements present information about the company as an individual undertaking and not about its group.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost of tangible assets by equal instalments over their estimated useful economic lives as follows:

Motor vehicles	-	25% reducing balance
Computer equipment	-	20% reducing balance
Plant and machinery	-	15% reducing balance
Buildings	-	2% straight line

Investments

Investments are stated at cost. Provision is made for any diminution in value which the directors consider to be permanent.

Pension costs

The company operates a defined contribution pension scheme covering the majority of salaried employees. Payments made to the scheme are charged against profits when incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the average purchase price is used. For work in progress cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year.

2 Turnover and profit before taxation

All turnover and profit before taxation is derived from the company's principal activity, and arises entirely in the UK.

Notes *(continued)*

3 Profit on ordinary activities before taxation

		2002 £	2001 £
Profit on ordinary activities before taxation is stated after charging:			
Auditors' remuneration	- Audit	**7,600**	7,600
	- Other services	**4,650**	15,290
Depreciation		**146,972**	161,213
Amounts written off investments		**3,298**	7,432
Loss on sale of tangible fixed assets		**4,786**	13,847
after crediting:			
Training grants received		**16,762**	11,160

4 Remuneration of directors

	2002 £	2001 £
Directors' emoluments	**849,705**	551,211
Company contributions to money purchase pension schemes	**32,164**	236,030
	881,869	787,241

The emoluments of the highest paid director were £278,464 *(2001: £292,968)* and company pension contributions of £10,525 *(2001: £13,834)* were made to a money purchase scheme on his behalf.

Retirement benefits are accruing to five directors under money purchase schemes.

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees 2002	2001
Office and management	**46**	38
Installation and repair	**160**	135
	206	173

The aggregate payroll costs of these persons were as follows:

	2002 £	2001 £
Wages and salaries	**5,346,308**	3,911,970
Social security costs	**531,794**	408,113
Other pension costs (note 20)	**68,855**	260,768
	5,946,957	4,580,851

6 Interest receivable and similar income

	2002 £	2001 £
Income from bank deposits	**60,325**	62,176

Notes *(continued)*

7 Interest payable and similar charges

	2002 £	2001 £
On bank loans and overdrafts	**36,202**	50,520

8 Tax on profit on ordinary activities

	2002 £	2001 £
UK corporation tax		
Current tax on income for the period	**252,219**	231,008
Adjustments in respect of prior periods	**3,442**	(3,099)
Total current tax	**255,661**	227,909
Deferred tax (see note 16)	**15,075**	19,713
Tax on profit on ordinary activities	**270,736**	247,622

Factors affecting the tax charge for the current period

The current tax charge for the period is lower *(2001: lower)* than the standard rate of corporation tax in the UK 30% *(2001: 30%)*. The differences are explained below.

	2002 £	2001 £
Current tax reconciliation		
Profit on ordinary activities before tax	**756,329**	715,939
Current tax at 30% *(2001: 30%)*	**226,897**	214,782
Effects of:		
Expenses not deductible for tax purposes	**46,908**	32,854
Capital allowances for period in excess of depreciation	**(9,586)**	(16,628)
Marginal relief	**(12,000)**	-
Adjustments to tax charge in respect of previous periods	**3,442**	(3,099)
Total current tax charge (see above)	**255,661**	227,909

Notes *(continued)*

9 Dividends

	2002 £	2001 £
Interim dividends paid on:		
Preferred ordinary shares	**12,192**	20,000
Ordinary shares	**96,000**	96,000
Final dividend proposed on:		
Preferred ordinary shares	-	66,832
	108,192	182,832

10 Tangible assets

	Land and buildings £	Motor vehicles £	Plant and machinery £	Computer equipment £	Total £
Cost					
At beginning of year	1,128,489	566,443	210,011	130,305	2,035,248
Additions	25,690	50,272	32,193	16,690	124,845
Disposals	-	(33,508)	-	-	(33,508)
At end of year	1,154,179	583,207	242,204	146,995	2,126,585
Depreciation					
At beginning of year	41,881	258,351	71,247	85,409	456,888
Charge for year	23,084	85,753	25,816	12,319	146,972
Disposals	-	(18,122)	-	-	(18,122)
At end of year	64,965	325,982	97,063	97,728	585,738
Net book value					
At 31 October 2002	**1,089,214**	**257,225**	**145,141**	**49,267**	**1,540,847**
At 31 October 2001	1,086,608	308,092	138,764	44,896	1,578,360

Included in the land and buildings is land with a cost of £155,890 *(2001: £155,890)*.

Notes *(continued)*

11 Investments

	Subsidiary undertakings £	Listed £	Total £
Cost			
At beginning of year	800	33,430	34,230
Additions	-	829	829
At end of year	800	34,259	35,059
Provision for diminution in value			
At beginning of year	-	23,344	23,344
Charge to profit and loss	800	2,498	3,298
At end of year	800	25,842	26,642
Net book value			
At 31 October 2002	**-**	**8,417**	**8,417**
At 31 October 2001	800	10,086	10,886

The market value of listed investments at 31 October 2002 amounted to £8,417*(2001: £10,086)*.

The company owns 100% of the issued share capital of Arthur McKay (Support Services) Limited. This company was incorporated on 16 March 1999 and commenced trading on 1 November 1999 but has been dormant since 31 October 2001.

12 Stocks

	2002 £	2001 £
Work in progress - cost	**5,780,662**	3,292,126
Less: Payments on account	**(3,631,306)**	(1,817,435)
	2,149,356	1,474,691
Raw materials and consumables	**27,355**	31,411
	2,176,711	1,506,102

Payments received on individual contracts in excess of the cost of the work done are included in creditors.

13 Debtors

	2002 £	2001 £
Trade debtors	**1,166,816**	1,368,950
Prepayments and accrued income	**1,032**	1,589
	1,167,848	1,370,539

Notes *(continued)*

14 Creditors: amounts falling due within one year

	2002 £	2001 £
Bank loan (note 15)	**83,347**	81,783
Payments received on account	**461,933**	277,591
Trade creditors	**263,160**	260,028
Current tax	**252,219**	233,749
Other taxes and social security	**333,909**	280,303
Accruals and deferred income	**2,503,339**	2,206,387
Dividend proposed	**-**	66,832
	3,897,907	3,406,673

15 Creditors: amounts falling due after one year

	2002 £	2001 £
Bank loan	**569,535**	640,629

The bank loan is secured by a bond and floating charge over the assets together with a standard security over the company's property. The loan is due for repayment in August 2010.

Analysis of debt	2002 £	2001 £
Debt can be analysed as following due:		
In one year or less, or on demand	**83,347**	81,783
Between one and two years	**83,347**	83,347
Between two and five years	**250,041**	250,041
In five years or more	**236,147**	307,241
	652,882	722,412

16 Provision for liabilities and charges

	2002 £	2001 £
Capital allowances in advance of depreciation		
At beginning of year	**66,796**	47,083
Charge for the year	**15,075**	19,713
At end of year	**81,871**	66,796

Notes *(continued)*

17 Called up share capital

	2002 £	2001 £
Authorised		
Preferred ordinary shares of £1 each	**1,000**	1,000
Ordinary shares of £1 each	**4,000**	4,000
	5,000	5,000
Allotted, called up and fully paid		
Preferred ordinary shares of £1 each	**-**	1,000
Ordinary shares of £1 each	**4,000**	4,000
	4,000	5,000

On 7 December 2001, the company bought back 1,000 £1 preferred ordinary shares at a premium of £260 per share.

18 Reserves

	Capital redemption reserve £	Profit and loss account £
At beginning of year	-	1,567,545
Buy back of preference share capital	1,000	(261,000)
Retained profit for the year	-	377,401
At end of year	1,000	1,683,946

19 Reconciliation of movements in shareholders' funds

	2002 £	2001 £
Profit for the financial year	**485,593**	468,317
Dividends	**(108,192)**	(181,832)
Premium on preference share buy back	**(261,000)**	-
Net addition to shareholders' funds	**116,401**	286,485
Opening shareholders' funds	**1,572,545**	1,287,060
Closing shareholders' funds	**1,688,946**	1,573,545

20 Pension scheme

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from the assets of the company in an independently administered fund. The pension cost charge represents contributions payable to the fund during the year.

Notes *(continued)*

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

	2002 £	2001 £
Operating profit	**731,868**	703,947
Depreciation charges	**146,972**	161,213
Loss on sale of tangible assets	**4,786**	13,847
Increase in investment provision	**3,298**	7,432
Increase in stocks	**(670,609)**	(604,970)
Decrease in debtors	**202,691**	256,160
Increase in creditors	**538,032**	621,040
Net cash inflow from operating activities	**957,038**	1,158,669

22 Analysis of changes in net funds

	At beginning of year £	Cash flow £	Other non cash changes £	**At end of year £**
Cash at bank	1,220,756	123,680	-	**1,344,436**
Debts due within one year	(81,783)	69,530	(71,094)	**(83,347)**
Debts due after one year	(640,629)	-	71,094	**(569,535)**
	498,344	193,210	-	**691,554**