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KENNETH MACKENZIE LTD

REPORT AND ACCOUNTS

Year ended 30 June 2003

Company Number: 047484

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KENNETH MACKENZIE LIMITED

REPORT AND ACCOUNTS

Year ended 30 June 2003

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KENNETH MACKENZIE LIMITED

DIRECTORS' REPORT

Directors:

D R Murray
K W Rawlinson

Secretary and Registered Office:

K W Rawlinson, Sandwick Road, Stornoway, Isle of Lewis PA87 2SJ

The directors present their report and audited accounts for the year ended 30 June 2003.

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, 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 accounts;

Prepare the accounts 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 accounts 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.

Principal activities, business review and future prospects

The principal activities of the company are the manufacture and marketing of Harris Tweed.

The directors are optimistic that tweed is coming back into fashion and the early indications after the Premier Vision Exhibitions are looking positive, with requests for samples up on previous years.

KENNETH MACKENZIE LIMITED

DIRECTORS' REPORT (cont'd)

Results and dividends

The loss for the year, after taxation was £152,382 (2002: profit £135,603) which has been taken to reserves. The directors do not recommend the payment of a dividend.

Directors and directors' interests

Both directors served as directors throughout the year.

Neither of the directors of the company had any immediate beneficial interest in the shares of the company. Directors' interests in the shares of the ultimate parent company are shown in that company's accounts.

Auditors

A resolution to re-appoint Scott-Moncrieff, Chartered Accountants as auditors will be put to the members at the annual general meeting.

By order of the board

K W RAWLINSON

Secretary

19 April 2004

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF KENNETH MACKENZIE LIMITED

We have audited the financial statements of Kenneth MacKenzie Limited for the year ended 30 June 2003 set out on pages 4 to 16. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 8 and 9.

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 the directors and the auditors
As described in the Statement of Directors Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

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.

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 that 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 30 June 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Scott-Moncrieff
SCOTT-MONCRIEFF

Chartered Accountants
Registered Auditors

25 Bothwell Street
Glasgow G2 6NL

21 April 2004

KENNETH MACKENZIE LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 30 June 2003

	Note	2003 £	2002 £
TURNOVER	2	2,978,871	3,591,400
Cost of sales		2,155,494	2,404,884
Gross profit		823,377	1,186,516
Distribution costs		377,311	419,264
Administrative expenses		692,198	630,153
		(246,132)	137,099
Other operating income	6	5,652	7,789
Operating (loss)/profit		(240,480)	144,888
Interest receivable		38,828	39,120
(Loss)/profit on ordinary activities before taxation	4	(201,652)	184,008
Taxation	7	(49,270)	48,405
(Loss)/profit on ordinary activities after taxation		(152,382)	135,603

Continuing Operations

None of the company's activities were acquired or discontinued during the above two financial years.

The notes on pages 8 to 16 form part of these accounts.

KENNETH MACKENZIE LIMITED

NOTE OF HISTORICAL COST PROFITS AND LOSSES

Year ended 30 June 2003

	2003 £	2002 £
Reported (loss)/profit on ordinary activities before taxation	(201,652)	184,008
Difference between actual and historical cost depreciation	3,708	3,708
Historical cost (loss)/profit on ordinary activities before taxation	(197,944)	187,716
Retained historical cost (loss)/profit for the year	(148,674)	139,311

The notes on pages 8 to 16 form part of these accounts.

KENNETH MACKENZIE LIMITED

BALANCE SHEET AS AT 30 JUNE 2003

	Notes	2003 £	2002 £
FIXED ASSETS			
Tangible assets	8	828,459	866,647
CURRENT ASSETS			
Stocks	9	746,959	733,728
Debtors	10	1,139,633	1,139,723
Cash at bank and in hand		980,062	1,042,601
		2,866,654	2,916,052
CREDITORS: amounts falling due within one year	11	1,840,674	1,761,996
NET CURRENT ASSETS		1,025,980	1,154,056
TOTAL ASSETS LESS CURRENT LIABILITIES		1,854,439	2,020,703
CREDITORS: amounts falling due after more than one year	11	9,893	15,332
PROVISIONS FOR LIABILITIES AND CHARGES	12	42,712	51,155
		1,801,834	1,954,216
CAPITAL AND RESERVES			
Called-up share capital	13	100,000	100,000
Share premium account		367,232	367,232
Revaluation reserve	14	478,686	482,394
Profit and loss account	14	855,916	1,004,590
SHAREHOLDERS' FUNDS - EQUITY	15	1,801,834	1,954,216

The accounts on pages 4 to 16 were approved by the board of directors on 19 APRIL 2004 and were signed on its behalf by:

D R Murray Director

K W Rawlinson Director

The notes on pages 8 to 16 form part of these accounts.

KENNETH MACKENZIE LIMITED

CASH FLOW STATEMENT

Year ended 30 June 2003

	Note	2003 £	2002 £
Net cash (outflow) inflow from operating activities	16	(41,898)	188,088
Returns on investments and servicing of finance		38,828	39,120
		(3,070)	227,208
Taxation		(51,283)	(20,098)
Capital expenditure	17	(8,186)	(14,546)
(Decrease)/increase in cash		(62,539)	192,564
Reconciliation of movement in net cash			
Cash at bank and in hand as at 1 July 2002		1,042,601	850,037
(Decrease)/increase in cash		(62,539)	192,564
Cash at bank and in hand as at 30 June 2003		980,062	1,042,601

The notes on pages 8 to 16 form part of these accounts.

KENNETH MACKENZIE LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 June 2003

1. Accounting policies

Basis of accounting

The accounts are prepared under the historical cost convention as modified by the revaluation of land and buildings and in accordance with applicable accounting standards.

Turnover

Turnover represents the value of goods despatched and invoiced during the year, excluding value added tax.

Tangible fixed assets

Depreciation is provided on all tangible fixed assets other than land in equal annual instalments over the estimated useful lives of the assets and is calculated on the cost or valuation of the assets.

The following rates are used:

Buildings	1%
Plant and machinery	5-10%
Office furniture and equipment	25%
Motor vehicles	25%

Government grants

Regional development and other capital grants are allocated to deferred grants account and released to profit and loss account evenly over the estimated useful lives of the assets concerned.

Stocks

Stocks and work in progress are stated at the lower of cost (on a first in first out basis) and net realisable value. Cost of work in progress and finished goods comprises materials, direct wages and attributable overheads.

Deferred taxation

FRS 19 "Deferred tax" has been adopted. In accordance with this standard, the difference between the accounting treatment and tax treatment for depreciation in respect of accelerated capital allowances and other timing differences is provided in full. Provision is made, or recovery anticipated, where timing differences will reverse in the foreseeable future.

KENNETH MACKENZIE LIMITED

NOTES TO THE ACCOUNTS (cont'd)

Year ended 30 June 2003

1. Accounting policies (cont'd)

Foreign currency

Foreign currency transactions are translated at the rates ruling when they occurred, or at a forward exchange contract rate where appropriate. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date or at a forward exchange rate if appropriate. Exchange differences are taken to the profit and loss account.

2. Turnover and profit on ordinary activities before taxation

A geographical analysis of turnover is as follows:

	2003 £	2002 £
United Kingdom	256,254	188,181
Export	2,722,617	3,403,219
	2,978,871	3,591,400

No further geographical analysis of turnover is given as this, in the opinion of the directors, would be prejudicial to the interests of the company.

KENNETH MACKENZIE LIMITED

NOTES TO THE ACCOUNTS (cont'd)

Year ended 30 June 2003

3. Staff costs

	2003	2002
	£	£
Staff costs comprise:		
Wages and salaries	976,423	988,877
Social security costs	82,333	91,666
Other pension costs	39,097	28,397
	1,097,853	1,108,940

The average monthly number of persons employed during the year was as follows:

	Number	Number
Production	49	55
Selling and distribution	9	8
Administration	11	11
	69	74

4. (Loss)/profit on ordinary activities before taxation

	£	£
The (loss)/profit is stated after charging:		
Depreciation of tangible fixed assets	46,587	49,453
Directors' remuneration (note 5)	55,577	56,859
Auditors' remuneration	24,526	13,700

5. Directors' remuneration

Emoluments	50,414	51,990
Contributions to money purchase pension scheme	5,163	4,869
	55,577	56,859

	Number	Number
Number of directors for whom company making contributions to money purchase pension scheme	1	1

KENNETH MACKENZIE LIMITED

NOTES TO THE ACCOUNTS (cont'd)

Year ended 30 June 2003

6. Other operating income

	2003 £	2002 £
Gain on sale of fixed assets	213	2,350
Release of capital grants	5,439	5,439
	5,652	7,789

7. Tax on (loss)/profit on ordinary activities

Corporation tax at 19% (2002 – 30%) based on the profit for the year

Corporation tax - current year	(40,827)	48,405
Deferred tax	(8,443)	-
	(49,270)	48,405

Factors affecting tax charge for year

The tax assessment for the year is lower (2002: higher) than the standard rate of corporation tax in the UK (19%). The differences are explained below:

	2003 £	2002 £
(Loss) profit on ordinary activities before tax	(201,652)	184,008
Profit on ordinary activities multiplied by standard rate of tax in the UK of 19% (2002: 20%)	(38,314)	36,801
Corporation tax effects of:		
Capital allowances in excess of depreciation	4,873	-
Depreciation on non-qualifying assets		
Marginal relief	(4,907)	11,228
Prior year corporation tax adjustment	-	(2,220)
Expenses not deductible for tax purposes	1,080	2,596
Rate change	(2,317)	-
Other short term timing differences	(1,242)	-
Current tax charge for year	(40,827)	48,405

KENNETH MACKENZIE LIMITED

NOTES TO THE ACCOUNTS (cont'd)

Year ended 30 June 2003

8. Tangible fixed assets

	Heritable land and buildings £	Plant and machinery £	Motor vehicles £	Office furniture and equipment £	Total £
Cost or valuation:					
At 1 July 2002	750,000	2,517,320	93,546	110,124	3,470,990
Additions	-	1,020	6,962	417	8,399
Disposals	-	-	(15,815)	-	(15,815)
At 30 June 2003	750,000	2,518,340	84,693	110,541	3,463,574
Being:					
At cost	-	2,518,340	84,693	110,541	2,713,574
At valuation in 1997	750,000	-	-	-	750,000
	750,000	2,518,340	84,693	110,541	3,463,574
Depreciation:					
At 1 July 2002	43,872	2,383,932	84,119	92,420	2,604,343
Charge for year	6,500	26,947	4,158	8,982	46,587
On disposals	-	-	(15,815)	-	(15,815)
At 30 June 2003	50,372	2,410,879	72,462	101,402	2,635,115
Net book value:					
At 30 June 2003	699,628	107,461	12,231	9,139	828,459
At 30 June 2002	706,128	133,388	9,427	17,704	866,647

For the land and buildings stated at valuation the comparable amounts determined under the historical cost convention were:

	Cost £	Aggregate depreciation £	Net book value £
At 30 June 2003	288,876	109,818	179,058

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KENNETH MACKENZIE LIMITED

NOTES TO THE ACCOUNTS (cont'd)

Year ended 30 June 2003

9. Stocks

	2003 £	2002 £
Raw materials and consumables	228,487	236,551
Work in progress	322,688	314,724
Finished goods	195,784	182,453
	746,959	733,728

10. Debtors

Trade debtors	883,182	1,068,087
Other debtors (note 21)	211,879	69,024
Prepayments and accrued income	1,962	2,612
Corporation tax	42,610	-
	1,139,633	1,139,723

11. Creditors

Amounts falling due within one year:

Trade creditors	63,337	50,177
Amount owed to group undertakings	1,508,592	1,404,300
Corporation tax	-	49,500
Other taxation and social security	32,130	29,117
Accruals and deferred income	236,615	228,902
	1,840,674	1,761,996

Amounts falling due after more than one year:

Accruals and deferred income	9,893	15,332

The bank overdraft facility is secured by a bond and floating charge over the assets of the company.

12./

KENNETH MACKENZIE LIMITED

NOTES TO THE ACCOUNTS (cont'd)

Year ended 30 June 2003

12. Deferred taxation

	2003 £	2002 £
Accelerated capital allowances	45,625	55,309
Other timing differences	(2,913)	(4,154)
	42,712	51,155

Deferred taxation movements:	£
Balance at 1 July 2002	51,155
Profit and loss account transfer	8,443
Balance at 30 June 2003	42,712

Deferred tax is calculated at 19% (2002: 20%) analysed over the following timing differences:

	2003 £	2002 £
Accelerated capital allowances	45,625	55,309
Short term timing differences	(2,913)	(4,154)
	42,712	51,155

13. Called up share capital

Authorised, allotted and fully paid:

100,000 ordinary shares of £1 each	100,000	100,000

14./

KENNETH MACKENZIE LIMITED

NOTES TO THE ACCOUNTS (cont'd)

Year ended 30 June 2003

14. Reserves	Revaluation reserve £	Profit and loss account £
At 1 July 2002	482,394	1,004,590
Loss for the year	-	(152,382)
Depreciation transfer	(3,708)	3,708
At 30 June 2003	478,686	855,916

15. Reconciliation of movements in shareholders' funds	2003 £	2002 £
(Loss) profit for the financial year	(152,382)	135,603
Net (reduction) addition from shareholders' funds	(152,382)	135,603
Opening shareholders' funds	1,954,216	1,818,613
Closing shareholders' funds	1,801,834	1,954,216

16. Reconciliation of operating profit to net cash (outflow) inflow from operating activities		
Operating (loss) profit	(240,480)	144,888
Depreciation	46,587	49,453
Gain on sale of fixed assets	(213)	(2,350)
Release of government grant	(5,439)	(5,439)
(Increase)/decrease in stocks	(13,231)	38,105
Decrease in debtors	42,700	25,193
Increase)/(decrease) in creditors	128,178	(61,762)
Net cash (outflow) inflow from operating activities	(41,898)	188,088

17. Analysis of cashflows for headings netted in cashflow statement

Capital expenditure

Purchase of fixed assets	(8,399)	(16,896)
Sale of fixed assets	213	2,350
	(8,186)	(14,546)

NOTES TO THE ACCOUNTS (cont'd)

Year ended 30 June 2003

18. Other financial commitments

As at 30 June 2003, the company has contractual commitments for forward purchases of wool amounting to £91,260 (2002: £95,921).

19. Parent undertaking

The parent undertaking of Kenneth Mackenzie Limited is Kenneth Mackenzie Holdings Limited, which is registered in Scotland.

20. Ultimate controlling party

The ultimate parent undertaking of the company is Kenneth Macleod (Shawbost) Limited, a company registered in Scotland, which is controlled by Mr D R Murray, a director.

21. Related party transactions

	2003 £	2002 £
Sales to parent company	76,225	64,854
Purchases from parent company	23,481	25,926
Management charge from parent company	100,000	100,000

Included in other debtors are loans to individuals of £1,500 who are related to D R Murray, a director of the company.

At the year end amount due to parent undertaking and fellow subsidiaries amounted to £1,508,592 (2002: £1,404,300).