ESA McIntosh Limited

90149

Annual report
for the year ended 31 December 1997

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Directors' report for the year ended 31 December 1997

The directors present their report and the audited financial statements for the year ended 31 December 1997.

Principal activities

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

The principal activities of the company are the manufacture and supply of domestic and educational furniture.

Review of business and future developments

The directors consider the results for the year to be disappointing, but in line with their expectations. The downturn in volume is largely as a result of reduced educational sales due to lower spending on school capital projects caused by the uncertainty of the general election and reorganisation of the unitary authorities.

In the light of this the company has undertaken significant product and market development activities in conjunction with an operational review resulting in fundamental reorganisation in order to improve its sale base and competitive position. These activities resulted in exceptional costs of £432,000 and included:

- costs of product development
- recruitment personnel required for new product
- redundancy costs arising from change in product focus

It is anticipated that this action by the company will provide significant improvement in its results in the coming years.

Dividends and transfer to reserves

The directors do not recommend the payment of a dividend.

The loss for the year of £925,531 (1996: profit of £46,253) will be transferred to reserves.

Directors

The directors of the company at 31 December 1997, all of whom have been directors for the whole or part of the year ended on that date, are listed below:-

R J J Bell
W McColl
K L Cook (Resigned 10/4/97)
G Wilson (Resigned 7/5/97)
M Bell

Directors' interests

The directors, according to the register required to be kept under Section 325 of the Companies Act 1985, did not have at the beginning or end of the year, any interest in the shares of the company. The directors' interests in the share capital of McIntosh 88 Limited are disclosed in the accounts of that company.

Health and safety

Strenuous efforts continue to be made throughout the company to improve our good record in this field.

Disabled persons

The company's policy in respect of the employment of disabled persons is:

(a) to give full and fair consideration of all types of vacancies;

(b) to retain newly disabled employees wherever possible for rehabilitation and training; and

(c) to give equal opportunities for training, career development and promotion and, where applicable, to modify equipment and premises to use special equipment aids or to restructure jobs.

Employee involvement

During the year employees have been briefed with information of matters of concern to them regarding the companies activities and progress.

Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period.

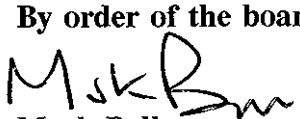
The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1997. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Auditors

A resolution to reappoint the auditors, Coopers & Lybrand, will be proposed at the annual general meeting.

By order of the board



Mark Bell
Company Secretary
Kirkcaldy

Report of the auditors to the members of ESA McIntosh Limited

We have audited the financial statements on pages 5 to 15.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

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 at 31 December 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

Chartered Accountants and Registered Auditors
Edinburgh
9 April 1998

Profit and loss account for the year ended 31 December 1997

	Notes	1997 £	1996 £
Turnover		**8,039,120**	10,114,832
Cost of sales		**(6,209,313)**	(7,611,266)
Gross profit		**1,829,807**	2,503,566
Net operating expenses	3	**(2,297,086)**	(2,358,817)
Exceptional operating expenses	3	**-**	(99,223)
Total net operating expenses		**(2,297,086)**	(2,458,040)
Operating (loss)/profit before exceptional items		**(467,279)**	45,526
Exceptional item	4	**(432,000)**	-
(Loss)/profit on ordinary activities before interest		**(899,279)**	45,526
Interest receivable and similar income		**5,857**	7,219
		(893,422)	52,745
Interest payable and similar charges	7	**(32,109)**	(6,492)
(Loss)/profit on ordinary activities before taxation	8	**(925,531)**	46,253
Tax on profit on ordinary activities	9	**-**	-
Retained (loss)/profit for the financial year	19	**(925,531)**	46,253

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

There is no material difference between the (loss)/profit on ordinary activities before taxation and the retained (loss)/profit for the year stated above, and their historical cost equivalents.

All of the above relates to continuing operations.

Balance sheet at 31 December 1997

	Notes	1997 £	1996 £
Fixed assets			
Tangible assets	10	**3,259,255**	2,730,608
Current assets			
Stocks	11	**1,629,790**	1,636,263
Debtors	12	**1,454,874**	1,735,320
Cash at bank and in hand		**392**	338,878
		3,085,056	3,710,461
Creditors: amounts falling due within one year	13	**2,253,482**	1,519,400
Net current assets		**831,574**	2,191,061
Total assets less current liabilities		**4,090,829**	4,921,669
Creditors: amounts falling due after more than one year	14	**195,351**	100,660
		3,895,478	4,821,009
Capital and reserves			
Called up share capital	18	**100,000**	100,000
Profit and loss account	19	**3,772,509**	4,686,556
Revaluation reserve	19	**22,969**	34,453
Equity shareholders' funds		**3,895,478**	4,821,009

The financial statements on pages 5 to 15 were approved by the board of directors on 9th April 1998 and were signed on its behalf by:

Director

Notes to the financial statements for the year ended 31 December 1997

1 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, which have been applied consistently, is set out below.

Basis of accounting

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

Tangible fixed assets

The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost, or valuation, of tangible fixed assets, less their estimated residual values on a straight line basis over the expected useful economic lives of the assets concerned.

The principal annual rates used for this purpose are:

	%
Buildings	2½
Fixtures and fittings	20
Motor vehicles	25
Plant and machinery	10 to 33 1/3
Computer equipment	20 to 33 1/3

Land is not depreciated.

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and 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 on proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

1 Principal accounting policies (continued)

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis and includes transport and handling costs. In the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Turnover

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

Foreign currencies

Assets and liabilities in foreign currencies are translated to sterling at rates of exchange ruling at the end of the financial year. Trading activities are translated to sterling at the rate of exchange ruling at the time of the transaction. Any resultant gain or loss on exchange is shown as part of the year's profit or loss from ordinary activities.

Deferred taxation

Provision is made for deferred taxation, using the liability method on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

Pension scheme arrangements

The company operates a defined benefit pension scheme. The fund is valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rates. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme.

The company provides no other post retirement benefits to its employees.

Cash flow statement

The company is a wholly owned subsidiary of McIntosh 88 Limited. The parent company prepares a consolidated cash flow statement. As a consequence the company is exempt from the requirement of FRS 1 (revised) to publish a cash flow statement.

2 Segmental analysis

Segmental analysis of the company's operations has not been included as, in the opinion of the directors, such disclosures would be seriously prejudicial to the company's interests.

3 Net operating expenses

	1997 £	1996 £
Distribution costs	**940,819**	758,252
Administrative expenses	**1,356,267**	1,600,565
	2,297,086	2,358,817

The prior year exceptional operating expenses of £99,223 relate to redundancy costs incurred during the year.

4 Exceptional item

As discussed in the Directors Report on page 1, exceptional costs of £432,000 were incurred during the year.

5 Directors' emoluments

	1997 £	1996 £
Aggregate emoluments	**258,117**	356,393
Compensation for loss of office	**10,000**	9,000
	268,117	365,393

Retirement benefits are accruing to two of the directors under the company's defined benefit scheme.

The highest paid director	1997 £	1996 £
Aggregate emoluments	**95,556**	101,969
Defined benefit scheme:		
Accrued pension at end of the year	**11,140**	9,590

6 Employee information

The average weekly number of persons employed by the company (including executive directors) during the year was:

	1997 Number	1996 Number
By activity		
Production	**160**	187
Selling and distribution	**18**	18
Administration	**16**	17
	194	222

	1997 £	1996 £
Staff costs (for the above persons)		
Wages and salaries	**3,069,565**	3,146,646
Social security costs	**294,816**	326,810
Pension costs (see note 17)	**43,069**	39,247
	3,407,450	3,512,703

7 Interest payable and similar charges

	1997 £	1996 £
On bank loans, overdrafts and other loans:		
Repayable within 5 years, not by instalments	**21,698**	5,036
On finance leases	**10,411**	1,456
	32,109	6,492

8 (Loss)/profit on ordinary activities before taxation

	1997 £	1996 £
(Loss)/profit on ordinary activities before tax is stated after crediting:		
Profit on disposal of tangible fixed assets	-	35,009
And after charging:		
Auditor remuneration	**14,200**	15,550
Hire of plant and machinery	**6,447**	371
Other of lease rentals	**149,662**	151,454
Depreciation of tangible fixed assets		
- owned by company	**242,029**	198,527
- held under finance leases	**9,381**	38,743
Loss on disposal of tangible fixed assets	**15,971**	-

9 Tax on profit on ordinary activities

There is no taxation charge due to the availability of tax losses carried forward of approximately £7.6m (1996: £6.6m).

10 Tangible fixed assets

	Land and buildings £	Plant, machinery, fixtures & fittings £	Motor vehicles £	Computer equipment £	Total £
Cost or valuation					
At 1 January 1997	2,088,931	1,539,306	322,809	314,749	4,265,795
Additions	11,558	587,301	142,469	75,409	816,737
Disposals	-	(45,450)	(114,091)	(6,920)	(166,461)
At 31 December 1997	2,100,489	2,081,157	351,187	383,238	4,916,071
Depreciation					
At 1 January 1997	70,000	955,463	219,967	289,757	1,535,187
Disposals	-	(40,223)	(82,895)	(6,663)	(129,781)
Charge for year	39,831	139,555	51,795	20,229	251,410
At 31 December 1997	109,831	1,054,795	188,867	303,323	1,656,816
Net book value At 31 December 1997	**1,990,658**	**1,026,362**	**162,320**	**79,915**	**3,259,255**
Net book value At 31 December 1996	2,018,931	583,843	102,842	24,992	2,730,608

The net book value of tangible fixed assets includes an amount of £313,879 (1996: £2,493) in respect of assets held under finance leases.

Plant and machinery was valued on an open market basis with existing use on 4 July 1988, by Ryden Henry Butcher, Chartered Valuators, Glasgow.

11 Stocks and work in progress

	1997 £	1996 £
Raw materials	**556,664**	496,921
Work in progress	**781,483**	858,210
Finished goods	**291,643**	281,132
	1,629,790	1,636,263

12 Debtors

	1997 £	1996 £
Amounts falling due within one year:		
Trade debtors	**1,140,073**	1,394,731
Other debtors	**108,783**	141,666
Amounts due from holding company	**206,018**	198,923
	1,454,874	1,735,320

13 Creditors: amounts falling due within one year

	1997 £	1996 £
Bank overdraft	**484,200**	-
Trade creditors	**544,305**	486,027
Bills of exchange payable	**103,325**	108,200
Obligations under finance leases	**152,622**	880
Dividends payable to holding company	**400,000**	400,000
Other taxation and social security	**175,154**	196,061
Other creditors	**46,684**	5,666
Accruals and deferred income	**347,192**	322,566
	2,253,482	1,519,400

14 Creditors: amounts falling due after more than one year

	1997 £	1996 £
Holding company loan	**100,000**	100,000
Obligations under finance leases (due within 5 years)	**95,351**	660
	195,351	100,660

The holding company loan is interest free and there are no fixed repayment terms.

15 Obligations under finance leases

The net finance lease obligations to which the company is committed are:

	1997 £	1996 £
In one year or less	**152,622**	880
Between one and two years	**95,351**	660
	247,973	1,540

16 Deferred taxation

The unprovided potential deferred tax asset is comprised as follows:

	Amount provided		Amount unprovided	
	1997 £'000	1996 £'000	**1997 £'000**	1996 £'000
The amount of timing differences because of:				
Excess of capital allowances over depreciation	-	-	**98**	95
Other	-	-	**(1)**	(1)
Losses	-	-	**(1,595)**	(1,531)
Advance corporation tax	-	-	**-**	(2)
	-	-	**(1,498)**	(1,439)

17 Pensions

The company participates in a pension scheme operated by London and Manchester (Pensions) Limited providing benefits based on a final pensionable salary. The assets of the scheme are held separately from those of the company.

The total pension cost for the company was £43,069 (1996: £39,247). The pension cost is assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The latest actuarial valuation for the scheme was at 1 May 1995. The assumptions that have the most significant effect on the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 8½% per annum, that salary increases would average 6½% per annum and that present and future pensions would increase at the rate of 4½% per annum.

At the date of the latest actuarial valuation, the market value of the assets of the scheme was £280,000. The actuarial value of the assets was sufficient to cover 64.8% of the benefits which had accrued to members after allowing for expected future increases in earnings. During the year the scheme was maintained at a fully funded position and the company's rate of contribution in future will be between 7 and 9% of pensionable salaries.

18 Called up share capital

	1997 £	1996 £
Authorised		
500,000 ordinary shares of £1 each	**500,000**	500,000
Allotted, called up and fully paid		
100,000 ordinary shares of £1 each	**100,000**	100,000

19 Reserves

	Profit & loss account £	Revaluation reserve £	Total £
At 1 January 1997	4,686,556	34,453	4,721,009
Retained loss for the year	(925,531)	-	(925,531)
Transfers	11,484	(11,484)	-
At 31 December 1997	**3,772,509**	**22,969**	**3,795,478**

20 Reconciliation of movements in shareholders' funds

	1997 £	1996 £
Opening shareholders' funds	**4,821,009**	4,774,756
(Loss)/profit for the financial year	**(925,531)**	46,253
Closing shareholders' funds	**3,895,478**	4,821,009

21 Financial commitments

At 31 December 1997 the company had annual commitments under non-cancellable operating leases as follows:

	1997 £	1996 £
Expiring within one year	**67,124**	85,596
Expiring between two and five years inclusive	**10,696**	7,161
	77,820	92,757

22 Contingencies

In December 1997, the company entered into a 12 month forward option contract to buy £250,000 of German DM at a pre-determined rate.

23 Ultimate parent company

The directors regard McIntosh 88 Limited as the ultimate parent company, a company registered in England and Wales. Copies of that company's financial statements are available from the Registrar of Companies in Cardiff.

24 Ultimate controlling party

The ultimate controlling party of the company is a trust representing the family interests of Mr R J Bell.