ESA McIntosh Limited

Directors' report and financial statements
Registered number 90149
31 December 2001



Contents

Company information	1
Directors' report	2
Statement of directors' responsibilities	4
Report of the independent auditors to the members of ESA McIntosh Limited	5
Profit and loss account	6
Balance sheet	7
Statement of total recognised gains and losses	8
Reconciliation of movements in shareholders' funds	8
Notes	9

Company information

Directors	RJJ Bell W McColl H Balfour G McSporran R McDonald
Company secretary	AI Paterson
Registered office	Mitchelston Drive Kirkcaldy
Bankers	Bank of Scotland Carberry Road Kirkcaldy
Solicitors	Pagan Business Law 8 Manor Place Edinburgh
Auditors	KPMG Audit Plc 24 Blythswood Square Glasgow G2 4QS

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2001.

Principal activities

The profit and loss account for the year is set out on page 6.

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

Review of business and future developments

The directors are pleased to report the continued improvement in the levels of profitability. On 24 September 2001 Havelock Europa PLC acquired the entire share capital of McIntosh 88 Limited, the company's parent undertaking, and Havelock Europa PLC remains the company's ultimate parent undertaking.

The directors anticipate this level of profitability to be maintained in the coming year.

Dividends and transfer to reserves

The profit for the financial year was £2,709,754 *(2000: £931,709)*. During the year the directors paid a dividend of £3,000,000 *(2000: £660,991)*. The directors do not recommend a final dividend, leaving £290,246 to be transferred from reserves *(2000: £270,718 transferred to reserves)*.

Directors and directors' interests

The directors of the company during the year were:

RJJ Bell	
W McColl	
H Balfour	(appointed 24 September 2001)
G McSporran	(appointed 24 September 2001)
R McDonald	(appointed 6 November 2001)

The directors, according to the register 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. H Balfour and G McSporran are also directors of Havelock Europa PLC and their interests in the shares of that company are disclosed in the annual report of that company. At 31 December 2001 RJJ Bell, family and related trusts held 2,522,523 shares and W McColl, family and related trusts held 277,477 shares in Havelock Europa PLC.

Health and Safety

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

Directors' report *(continued)*

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 company's activities and progress.

Auditors

During the year Springfords resigned as auditors and KPMG Audit Plc was appointed. In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



Al Paterson
Company Secretary

Mitchelston Drive
Kirkcaldy

13 May 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 period. 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 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 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.

KPMG Audit Plc
24 Blythswood Square
Glasgow
G2 4QS
United Kingdom

Report of the independent auditors to the members of ESA McIntosh Limited

We have audited the financial statements on pages 6 to 16.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, 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 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 as at 31 December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

24 May 2002

Profit and loss account

for the year ended 31 December 2001

	Note	**2001** £	2000 £
Turnover	*2*	**17,737,032**	13,316,363
Cost of sales		**(11,600,836)**	(9,806,385)
Gross profit		**6,136,196**	3,509,978
Distribution costs		**(1,087,958)**	(909,588)
Administrative expenses		**(2,234,797)**	(1,541,050)
Operating *profit*		**2,813,441**	1,059,340
Interest payable and similar charges		**(103,687)**	(127,631)
Profit on ordinary activities before taxation	*6*	**2,709,754**	931,709
Tax on profit on ordinary activities	*7*	**-**	-
Profit on ordinary activities after taxation		**2,709,754**	931,709
Dividend paid		**(3,000,000)**	(660,991)
Retained (loss)/profit for the financial year	*17*	**(290,246)**	270,718

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

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

Balance sheet

at 31 December 2001

	Note	**2001**		2000	
		3	**£**	£	£
Fixed assets					
Tangible assets	*8*		**3,353,046**		2,939,293
Current assets					
Stocks	*9*	**910,613**		1,412,599	
Debtors	*10*	**3,640,989**		1,992,202	
Cash at bank and in hand		***367***		480	
		4,551,969		3,405,281	
Creditors: amounts falling due within one year	*11*	**3,838,997**		2,409,910	
Net current assets			**712,972**		995,371
Total assets less current liabilities			**4,066,018**		3,934,664
Creditors: amounts falling due after more than one year	*12*		**413,669**		367,069
			3,652,349		3,567,595
Capital and reserves					
Called up share capital	*14*		**100,000**		100,000
Capital reserves	*16*		**1,380,676**		1,380,676
Revaluation reserve	*16*		**375,000**		-
Profit and loss account	*16*		**1,796,673**		2,086,919
Equity shareholders' funds			**3,652,349**		3,567,595

These financial statements were approved by the board of directors on 13 May 2002 and were signed on its behalf by:

W McColl
Director

Statement of total recognised gains and losses

for the year ended 31 December 2001

	2001 £	2000 £
Profit for the financial year	**2,709,754**	931,709
Gain on revaluation of fixed assets	**375,000**	-
Total recognised gains and losses since the previous financial year	**3,084,754**	931,709

Reconciliation of movements in shareholders' funds

for the year ended 31 December 2001

	2001 £	2000 £
Profit for the financial year	**2,709,754**	931,709
Dividend paid	**(3,000,000)**	(660,991)
Retained loss for the financial year	**(290,246)**	270,718
Revaluation gain	**375,000**	-
Net addition to shareholders' funds	**84,754**	270,718
Opening shareholders' funds	**3,567,595**	3,296,877
Closing shareholders' funds	**3,652,349**	3,567,595

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements except as noted below.

Basis of preparation

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

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:

Heritable property	2.5%
Fixtures and fittings	10%
Motor vehicles	25% to $33^{1}/_{3}$%
Plant and machinery	10%
Computer equipment	20%

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 of 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 assts 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.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

Cash flow statement

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Pension scheme arrangements

Until 30 April 1999 the company operated a defined benefit pension scheme at which date the scheme was closed. The fund was 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 reviewed the continuing appropriateness of the rates. Pension costs were 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 effect of variations from regular costs were spread over the expected average remaining service lives of members of the scheme.

From 1 May 1999 the company contributes to certain employees' pensions through defined contribution arrangements. The cost of the company's contributions is accounted for as they fall due. The company provides no other post retirement benefits to its employees.

2 Turnover

Turnover represents the amounts derived from one class of business, being the manufacture and supply of educational and domestic furniture. It is stated net of discounts and value added tax and was derived almost exclusively in the United Kingdom.

3 Remuneration of directors

	2001 £	2000 £
Directors' emoluments	**214,531**	202,792

The emoluments of the highest paid director were £123,046 *(2000: £109,297)*. The directors do not participate in the company's defined contribution pension arrangements.

Notes *(continued)*

4 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	
	2001	2000
Production	**154**	140
Selling and distribution	**20**	17
Administration	**14**	14
	188	171

The aggregate payroll costs of these persons were as follows:

	2001	2000
	£	£
Wages and salaries	**3,747,676**	3,174,442
Social security costs	**337,400**	321,283
Other pension costs	**10,829**	9,472
	4,095,905	3,505,197

5 Interest payable and similar charges

	2001	2000
	£	£
On bank loans, overdrafts and other loans		
- repayable within five years, not by instalments	**75,120**	116,901
- on finance leases	**28,567**	10,730
	103,687	127,631

6 Profit on ordinary activities before taxation

	2001	2000
	£	£
Profit on ordinary activities before tax is stated after charging:		
Auditors' remuneration	**14,000**	12,500
Hire of plant and machinery	**3,661**	2,289
Other operating lease rentals	**161,154**	143,075
Depreciation of tangible fixed assets		
- owned by the company	**213,053**	219,960
- held under finance leases	**112,778**	43,969
Impairment of tangible fixed assets	**150,000**	-
(Gain)/ loss on disposal of tangible fixed assets	**(8,894)**	11,487

Notes *(continued)*

7 Taxation

There is no taxation charge due to the availability of tax losses carried forward of approximately £4 million *(2000: £6.5 million)*.

8 Tangible fixed assets

	Heritable property	Plant, machinery fixtures and fittings	Motor vehicles	Computer equipment	Total
	£	£	£	£	£
Cost or valuation					
At beginning of year	1,911,924	2,231,702	319,065	711,105	5,173,796
Additions	-	440,817	42,590	43,806	527,213
Disposals	-	-	(78,526)	-	(78,526)
Revaluation	128,727	-	-	-	128,727
At end of year	2,040,651	2,672,519	283,129	754,911	5,751,210
Depreciation					
At beginning of year	210,984	1,508,403	154,391	360,725	2,234,503
Charge for year	35,289	144,642	75,935	69,965	325,831
Impairment	-	-	-	150,000	150,000
Disposals	-	-	(65,897)	-	(65,897)
Revaluation	(246,273)	-	-	-	(246,273)
At end of year	-	1,653,045	164,429	580,690	2,398,164
Net book value					
At 31 December 2001	**2,040,651**	**1,019,474**	**118,700**	**174,221**	**3,353,046**
At 31 December 2000	1,700,940	723,299	164,674	350,380	2,939,293

The net book value of tangible fixed assets includes an amount of £448,862 *(2000: £246,731)* in respect of assets held under finance leases.

Land and buildings were professionally valued at 17 September 2001 by Insignia Richard Ellis, Chartered Surveyors. All valuations were made in accordance with the RICS Statement of Asset Valuation practice and guidance notes. The value of £2.05 million is based on an existing use basis. The original cost of the revalued land and buildings was £1,911,924 and the written down value at the end of the year on an historical cost basis would be £1,665,651.

Notes *(continued)*

9 Stocks

	2001 £	2000 £
Raw materials	**357,888**	507,715
Work in progress	**257,470**	519,271
Finished goods and goods for resale	**295,255**	385,613
	910,613	1,412,599

10 Debtors

Due within one year	2001 £	2000 £
Trade debtors	**3,570,837**	1,912,561
Other debtors	**70,152**	79,641
	3,640,989	1,992,202

11 Creditors: amounts falling due within one year

	2001 £	2000 £
Bank overdraft	**1,145,372**	730,820
Trade creditors	**1,149,567**	628,324
Bills of exchange payable	**75,763**	49,391
Inter company creditor	**27,926**	-
Obligations under finance leases	**145,238**	76,346
Other taxation and social security	**522,181**	274,983
Other creditors	**6,044**	6,563
Accruals and deferred income	**766,906**	643,483
	3,838,997	2,409,910

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

Notes *(continued)*

12 Creditors: amounts falling due after more than one year

	2001 £	2000 £
Holding company loan	**286,887**	286,887
Obligations under finance leases (due within five years)	**126,782**	80,182
	413,669	367,069

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

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

	2002 £	2000 £
In one year or less	**145,238**	76,346
Between one and two years	**126,782**	80,182
	272,020	156,528

13 Deferred taxation

There is no unprovided deferred taxation.

14 Called up share capital

	2001 £	2000 £
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

Notes *(continued)*

15 Commitments

At 31 December 2001 the company had annual commitments under non-cancellable operating leases as follows:

	20001	2000
	£	£
Expiring:		
- within one year	**16,214**	-
- between two and five years inclusive	**13,508**	30,444
- expiring after five years	**120,291**	-
	150,013	30,444

16 Reserves

	Capital reserve	**Revaluation reserve**	**Profit and loss account**
	£	**£**	**£**
At beginning of year	1,380,676	-	2,086,919
Revaluation gain	-	375,000	-
Retained loss for the year	-	-	(290,246)
	1,380,676	375,000	1,796,673

17 Pension scheme

Until 30 April 1999 the company participated in a pension scheme operated by Friends Provident Corporate Pensions Limited which provided benefits based on a final pensionable salary. The assets of the scheme are held separately from those of the company. The scheme was closed at that date. From 1 May 1999 the company contributes to employees' pensions through defined contribution arrangements. The company's professional advisers are currently arranging for the transfer values of individual employees to be computed and provisions to be made appropriate to the winding up of the scheme. Taking account of the realisable value of the assets of the scheme it is not likely that any material further contributions will be required by the company to meet its statutory and other obligations.

The pension cost under the new pension arrangements in the year was £10,829 *(2000: £9,472)*.

Notes *(continued)*

18 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company is a subsidiary undertaking of McIntosh 88 Limited, incorporated in England and Wales.

The largest group in which the results of the company are consolidated is that headed by Havelock Europa PLC, incorporated in Scotland. The consolidated accounts of these groups are available to the public and may be obtained from Mossway, Hillend Industrial Park, Dalgety Bay, Fife, KY11 9JS.