**ESA McIntosh Limited**

# Directors' report and financial statements
Registered number 90149
31 December 2002



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

# Directors' report

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

## 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

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

## Dividends and transfer to reserves

The profit before tax for the financial year was £3,079,582 *(2001: £2,709,754)*. The directors proposed a final dividend payment of £4,000,000 *(2001: £3,000,000)*, resulting in a transfer from reserves of £1,846,158 *(2001: £1,104,214)*.

## Directors and directors' interests

The directors of the company during the year were:

RJJ Bell
W McColl
H Balfour
G McSporran
R McDonald

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. The interest of RJJ Bell and W McColl in the shares of Havelock Europe plc are shown in the accounts of McIntosh 88 Limited.

## 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

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

**AI Paterson**
*Company Secretary*

Mitchelston Drive
Kirkcaldy

1 July 2003

## 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 17.

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 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 2002 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** 8 July 2003
*Chartered Accountants*
*Registered Auditor*

# Profit and loss account

***for the year ended 31 December 2002***

| | Note | 2002 | 2001 (Restated) |
|---|---|---|---|
| | | £ | £ |
| **Turnover** | 2 | **18,160,856** | 17,737,032 |
| Cost of sales | | **(11,317,913)** | (11,600,836) |
| **Gross profit** | | **6,842,943** | 6,136,196 |
| Distribution costs | | **(1,196,679)** | (1,087,958) |
| Administrative expenses | | **(2,533,809)** | (2,234,797) |
| **Operating profit** | | **3,112,455** | 2,813,441 |
| Interest payable and similar charges | 6 | **(32,873)** | (103,687) |
| **Profit on ordinary activities before taxation** | 3 | **3,079,582** | 2,709,754 |
| Tax on profit on ordinary activities | 7 | **(925,740)** | (813,968) |
| ***Profit on ordinary activities after taxation*** | | **2,153,842** | 1,895,786 |
| Dividend paid | | **(4,000,000)** | (3,000,000) |
| **Retained loss for the financial year** | 16 | **(1,846,158)** | (1,104,214) |

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

There is no material difference in either year between the above profit on ordinary activities before taxation and their historical cost equivalents.

# Balance sheet

***at 31 December 2002***

| | Note | £ | 2002 £ | 2001 (Restated) £ |
|---|---|---|---|---|
| **Fixed assets** | | | | |
| Tangible assets | *8* | | **3,298,571** | 3,353,046 |
| **Current assets** | | | | |
| Stocks | *9* | **971,934** | 910,613 | |
| Debtors | *10* | **4,330,889** | 4,879,698 | |
| Cash at bank and in hand | | **530,070** | 367 | |
| | | **5,832,893** | 5,790,678 | |
| **Creditors:** amounts falling due within one year | *11* | **(5,761,452)** | (3,838,997) | |
| **Net current assets** | | | **71,441** | 1,951,681 |
| **Total assets less current liabilities** | | | **3,370,012** | 5,304,727 |
| ***Creditors:*** *amounts falling due after more than one year* | *12* | | **(325,112)** | (413,669) |
| | | | ***3,044,900*** | 4,891,058 |
| **Capital and reserves** | | | | |
| Called up share capital | *14* | | ***100,000*** | *100,000* |
| Capital reserves | *16* | | **1,380,676** | 1,380,676 |
| Revaluation reserve | *16* | | **365,625** | 375,000 |
| Profit and loss account | *16* | | **1,198,599** | 3,035,382 |
| **Equity shareholders' funds** | | | **3,044,900** | 4,891,058 |

These financial statements were approved by the board of directors on 1 July 2003 and were signed on its behalf by:

**W McColl**
*Director*

## Statement of total recognised gains and losses

*for the year ended 31 December 2002*

| | 2002 | 2001 (Restated) |
|---|---|---|
| | £ | £ |
| **Profit for the financial year** | **2,153,842** | 1,895,786 |
| Gain on revaluation of fixed assets | - | 375,000 |
| **Total recognised gains and losses relating to the year** | **2,153,842** | 2,270,786 |
| Prior year adjustment | **1,238,709** | |
| ***Total gains recognised since last annual report*** | **3,392,551** | |

## Reconciliation of movements in shareholders' funds

*for the year ended 31 December 2002*

| | 2002 | 2001 (Restated) |
|---|---|---|
| | £ | £ |
| **Profit for the financial year** | **2,153,842** | 1,895,786 |
| Dividend paid | **(4,000,000)** | (3,000,000) |
| Balance for the financial year | **(1,846,158)** | (1,104,214) |
| Revaluation gain | - | 375,000 |
| **Net reduction in shareholders' funds** | **(1,846,158)** | (729,214) |
| Opening shareholders' funds (originally £3,652,349 before a prior period adjustment of £1,238,709 for deferred taxation) | **4,891,058** | 5,620,272 |
| **Closing shareholders' funds** | **3,044,900** | 4,891,058 |

# 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 as modified to reflect the revaluation of certain fixed assets. The company has adopted FRS 19 'Deferred Taxation' in these financial statements. Comparative figures have been restated accordingly.

***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***

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. Prior year items have been restated to reflect the adoption of FRS 19. The impact of this change in accounting policy is given in note 13.

***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 Profit on ordinary activities before taxation

| | **2002** | 2001 |
|---|---|---|
| | **£** | £ |
| *Profit on ordinary activities before tax is stated after charging/(crediting):* | | |
| Auditors' remuneration | **19,302** | 14,000 |
| Hire of plant and machinery | **6,481** | 3,661 |
| Other operating lease rentals | **155,803** | 161,154 |
| Depreciation of tangible fixed assets | | |
| - owned by the company | **273,913** | 213,053 |
| - held under finance leases | **93,899** | 112,778 |
| Impairment of tangible fixed assets | **-** | 150,000 |
| Gain on disposal of tangible fixed assets | **(6,301)** | (8,894) |

## Notes *(continued)*

### 4 Remuneration of directors

| | 2002 £ | 2001 £ |
|---|---|---|
| Directors' emoluments | **427,446** | 214,531 |

The emoluments of the highest paid director were £154,825 *(2001: £123,046)*. The directors do not participate in the company's defined contribution pension arrangements.

### 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 |
|---|---|---|
| Production | **157** | 154 |
| Selling and distribution | **19** | 20 |
| Administration | **12** | 14 |
| | **188** | 188 |

The aggregate payroll costs of these persons were as follows:

| | 2002 £ | 2001 £ |
|---|---|---|
| Wages and salaries | **3,868,274** | 3,747,676 |
| Social security costs | **353,486** | 337,400 |
| Other pension costs | **10,546** | 10,829 |
| | **4,232,306** | 4,095,905 |

### 6 Interest payable and similar charges

| | 2002 £ | 2001 £ |
|---|---|---|
| On bank loans and overdrafts | **13,841** | 75,120 |
| - on finance leases | **19,032** | 28,567 |
| | **32,873** | 103,687 |

## Notes *(continued)*

### 7 Taxation

| | 2002 | 2001 (Restated) |
|---|---|---|
| | £ | £ |
| Corporation tax – current period | - | - |
| Deferred taxation – current period | **(925,740)** | (813,968) |
| | **(925,740)** | (813,968) |

An explanation of the difference between profit on ordinary activities before taxation and the corporation tax charge is given as follows:

| | 2002 | 2001 |
|---|---|---|
| | £ | £ |
| **Profit on ordinary activities before tax** | **3,079,582** | 2,709,754 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% *(2001: 30%)* | **923,875** | 812,926 |
| Effects of: | | |
| Deferred tax timing differences | **(34,998)** | (11,246) |
| Expenses not deductible for tax purposes | **1,865** | 1,042 |
| Relief for losses brought forward | **(890,742)** | (802,722) |
| **Corporation tax charge for the period** | **-** | - |

## Notes *(continued)*

### 8 Tangible fixed assets

| | Heritable property £ | Plant, machinery fixtures and fittings £ | Motor vehicles £ | Computer equipment £ | Total £ |
|---|---|---|---|---|---|
| ***Cost or valuation*** | | | | | |
| At beginning of year | 2,040,651 | 2,672,519 | 283,129 | 754,911 | 5,751,210 |
| Additions | - | 121,435 | 110,827 | 83,874 | 316,136 |
| Disposals | - | - | (65,390) | - | (65,390) |
| At end of year | 2,040,651 | 2,793,954 | 328,566 | 838,785 | 6,001,956 |
| ***Depreciation*** | | | | | |
| At beginning of year | - | 1,653,045 | 164,429 | 580,690 | 2,398,164 |
| Charge for year | 51,539 | 162,850 | 81,574 | 71,849 | 367,812 |
| Impairment | - | - | - | - | - |
| Disposals | - | - | (62,591) | - | (62,591) |
| At end of year | 51,539 | 1,815,895 | 183,412 | 652,539 | 2,703,385 |
| ***Net book value*** | | | | | |
| **At 31 December 2002** | **1,989,112** | **978,059** | **145,154** | **186,246** | **3,298,571** |
| At 31 December 2001 | 2,040,651 | 1,019,474 | 118,700 | 174,221 | 3,353,046 |

The net book value of tangible fixed assets includes an amount of £387,421 *(2001: £448,862)* 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 £2.04 million was 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 a historical cost basis would be £1,623,487.

### 9 Stocks

| | 2002 £ | 2001 £ |
|---|---|---|
| Raw materials | **443,384** | 357,888 |
| Work in progress | **162,120** | 257,470 |
| Finished goods and goods for resale | **366,430** | 295,255 |
| | **971,934** | 910,613 |

## Notes *(continued)*

## 10 Debtors

| *Due within one year* | 2002 £ | 2001 (Restated) £ |
|---|---|---|
| Trade debtors | **2,423,625** | 3,570,837 |
| Other debtors | **70,974** | 70,152 |
| Amounts owed by ultimate parent undertaking | **1,523,321** | - |
| Deferred taxation (note 13) | **312,969** | 1,238,709 |
| | **4,330,889** | 4,879,698 |

## 11 *Creditors: amounts falling due within one year*

| | 2002 £ | 2001 £ |
|---|---|---|
| Bank overdraft | **-** | 1,145,372 |
| Trade creditors | **631,315** | 1,149,567 |
| Bills of exchange payable | **25,519** | 75,763 |
| Amounts owed to ultimate parent undertaking | **-** | 27,926 |
| Obligations under finance leases | **119,376** | 145,238 |
| Other taxation and social security | **216,147** | 522,181 |
| *Other creditors* | **3,446** | 6,044 |
| Amounts owed to parent undertaking | **4,000,000** | - |
| Accruals and deferred income | **765,649** | 766,906 |
| | **5,761,452** | 3,838,997 |

## 12 Creditors: amounts falling due after more than one year

| | 2002 £ | 2001 £ |
|---|---|---|
| Holding company loan | **286,887** | 286,887 |
| Obligations under finance leases (*due within five years*) | **38,225** | 126,782 |
| | **325,112** | 413,669 |

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 £ | 2001 £ |
|---|---|---|
| *In one year or less* | **119,376** | 145,238 |
| Between one and two years | **38,225** | 126,782 |
| | ***157,601*** | 272,020 |

## Notes *(continued)*

### 13 Deferred taxation

Deferred tax at 30% *(2001: 30%)* is as follows:

| | £ |
|---|---|
| At 31 December 2001 | - |
| As previously reported | - |
| Prior year adjustment (see below) | **1,238,709** |
| As restated | **1,238,709** |
| Charge for year ended 31 December 2002 | **(925,740)** |
| **At 31 December 2002** | **312,969** |

Analysed as:

| | **2002** | 2001 (Restated) |
|---|---|---|
| | **£** | £ |
| Depreciation in excess of capital allowances | **(56,391)** | (21,394) |
| Losses carried forward | **369,360** | 1,260,103 |
| | **312,969** | 1,238,709 |

As a result of the adoption of FRS 19 : Deferred tax, a prior year adjustment has been made to recognise a deferred tax asset resulting in an increase in net assets of £312,969 *(2001: £1,238,709)* and an increase in the tax charge for the year of £925,740 *(2001: £813,968)*. In accordance with FRS 19, no deferred tax is provided for in respect of the property at its re-valued amount.

### 14 Called up share capital

| | **2002** | 2001 |
|---|---|---|
| | **£** | £ |
| ***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 2002 the company had annual commitments under non-cancellable operating leases as follows:

| | **2002** | 2001 |
|---|---|---|
| | **£** | £ |
| Expiring: | | |
| - within one year | **-** | 16,214 |
| - between two and five years inclusive | **42,692** | 13,508 |
| - expiring after five years | **120,291** | 120,291 |
| | **162,983** | 150,013 |

## 16 Reserves

| | **Capital reserve** | **Revaluation reserve** | **Profit and loss account** |
|---|---|---|---|
| | **£** | **£** | **£** |
| At beginning of year (as previously restated) | 1,380,676 | 375,000 | 1,796,673 |
| Prior year adjustment | - | - | 1,238,709 |
| At beginning of year (as restated) | 1,380,676 | 375,000 | 3,035,382 |
| Transfer of revaluation reserve to profit and loss | - | (9,375) | 9,375 |
| Retained loss for the year | - | - | (1,846,158) |
| | 1,380,676 | 365,625 | 1,198,599 |

## Notes *(continued)*

### 17 Post-retirement benefits

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. 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.

From 1 May 1999 the company contributes to employees' pensions through defined contribution arrangements. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period. The pension cost under the new pension arrangements in the year was £10,546 *(2001: £10,829)*.

### 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 England. The accounts of these groups are available to the public and may be obtained from Mossway, Hillend Industrial Park, Dalgety Bay, Fife, KY11 9JS.