ESA McIntosh Limited

Directors' report and financial statements
Registered number 90149
31 December 2003



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Company information

Directors	RJJ Bell W McColl H Balfour G McSporran R McDonald
Company secretary	AI Paterson
Registered office	Mitchelston Drive Kirkcaldy KY1 3NF
Bankers	Bank of Scotland Carberry Road Kirkcaldy KY1 3PA
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 2003.

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 for the financial year was £2,295,545 *(2002: £2,153,842)*. The directors proposed a final dividend payment of £3,000,000 *(2002: £4,000,000)* resulting in a transfer from reserves of £704,455 *(2002: £1,846,158)*.

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.

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

Al Paterson
Company Secretary

Mitchelston Drive
Kirkcaldy

15 October 2004

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
191 West George Street
Glasgow
G2 2LJ
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 2003 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

27 October 2004

Profit and loss account

for the year ended 31 December 2003

	Note	2003 £	2002 £
Turnover	2	**20,997,227**	18,160,856
Cost of sales		**(13,412,248)**	(11,317,913)
Gross profit		**7,584,979**	6,842,943
Distribution costs		**(1,363,304)**	(1,196,679)
Administrative expenses		**(3,012,901)**	(2,533,809)
Operating profit		**3,208,774**	3,112,455
Interest receivable/(payable) and similar charges	5	**68,046**	(32,873)
Profit on ordinary activities before taxation	6	**3,276,820**	3,079,582
Tax on profit on ordinary activities	7	**(981,275)**	(925,740)
Profit on ordinary activities after taxation		**2,295,545**	2,153,842
Dividend paid		**(3,000,000)**	(4,000,000)
Loss retained for the financial year		**(704,455)**	(1,846,158)

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

There is no material 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 2003

	Note	2003 £	£	2002 £	£
Fixed assets					
Tangible assets	8		**3,373,289**		3,298,571
Current assets					
Stocks	9	**1,030,080**		971,934	
Debtors	10	**7,492,879**		4,330,889	
Cash at bank and in hand		**449,353**		530,070	
		8,972,312		5,832,893	
Creditors: amounts falling due within one year	11	**(9,641,389)**		(5,761,452)	
Net current (liabilities)/assets			**(669,077)**		71,441
Total assets less current liabilities			**2,704,212**		3,370,012
Creditors: amounts falling due after more than one year	12		**(286,887)**		(325,112)
Provisions for liabilities and charges	13		**(76,880)**		-
			2,340,445		3,044,900
Capital and reserves					
Called up share capital	14		**100,000**		100,000
Capital reserve	16		**1,380,676**		1,380,676
Revaluation reserve	16		**356,250**		365,625
Profit and loss account	16		**503,519**		1,198,599
Equity shareholders' funds			**2,340,445**		3,044,900

These financial statements were approved by the board of directors on 15 October 2004 and were signed on its behalf by:

G MacSporran
Director

Statement of total recognised gains and losses

for the year ended 31 December 2003

	2003 £	2002 £
Profit for the financial year	**2,295,545**	2,153,842
Prior year adjustment	-	1,238,709
Total recognised gains and losses	**2,295,545**	3,392,551

Reconciliation of movements in shareholders' funds

for the year ended 31 December 2003

	2003 £	2002 £
Profit for the financial year	**2,295,545**	2,153,842
Dividend paid	**(3,000,000)**	(4,000,000)
Net reduction to shareholders' funds	**(704,455)**	(1,846,158)
Opening shareholders' funds	**3,044,900**	4,891,058
Closing shareholders' funds	**2,340,445**	3,044,900

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.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules as modified for the revaluation of land and buildings.

Tangible fixed assets

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 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.

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

	2003 £	2002 £
Directors' emoluments	**334,562**	427,446

The emoluments of the highest paid director were £154,224 *(2002: £154,825)*. 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 2003	2002
Production	**156**	157
Selling and distribution	**21**	19
Administration	**16**	12
	193	188

The aggregate payroll costs of these persons were as follows:

	2003 £	2002 £
Wages and salaries	**3,991,945**	3,868,274
Social security costs	**387,796**	353,486
Other pension costs	**11,764**	10,546
	4,391,505	4,232,306

5 Interest receivable/(payable) and similar charges

	2003 £	2002 £
Interest payable on bank overdrafts and loans	**-**	(13,841)
Interest receivable on bank funds	**76,072**	-
Interest payable on finance leases	**(8,026)**	(19,032)
	68,046	(32,873)

6 Profit on ordinary activities before taxation

	2003 £	2002 £
Profit on ordinary activities before tax is stated after charging/(crediting):		
Auditors' remuneration	**20,205**	19,302
Hire of plant and machinery	**15,733**	6,481
Other operating lease rentals	**179,837**	155,803
Depreciation of tangible fixed assets		
- owned by the company	**346,735**	273,913
- held under finance leases	**38,633**	93,899
Gain on disposal of tangible fixed assets	**(6,492)**	(6,301)

Notes *(continued)*

7 Taxation

		2003 £	2002 £
Corporation tax	– current year	**(509,864)**	-
	– group relief payable	**(81,562)**	-
Deferred taxation	– current year	**(389,849)**	(925,740)
		(981,275)	(925,740)

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

	2003 £	2002 £
Profit on ordinary activities before tax	**3,276,820**	3,079,582
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% *(2002 : 30%)*	**983,046**	923,875
Effects of:		
Deferred tax timing differences	**(20,489)**	(34,998)
Expenses not deductible for tax purposes	**608**	1,865
Relief for losses brought forward	**(369,360)**	(890,742)
Group relief	**(81,562)**	-
Other	**(2,379)**	-
	509,864	-

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	2,793,954	328,566	838,785	6,001,956
Additions	13,583	336,723	327	109,861	460,494
Disposals	-	-	(29,458)	-	(29,458)
At end of year	2,054,234	3,130,677	299,435	948,646	6,432,992
Depreciation					
At beginning of year	51,539	1,815,895	183,412	652,539	2,703,385
Charge for year	50,462	185,632	69,392	79,882	385,368
Disposals	-	-	(29,050)	-	(29,050)
At end of year	102,001	2,001,527	223,754	732,421	3,059,703
Net book value					
At 31 December 2003	**1,952,233**	**1,129,150**	**75,681**	**216,225**	**3,373,289**
At 31 December 2002	1,989,112	978,059	145,154	186,246	3,298,571

The net book value of tangible fixed assets includes an amount of £137,191 *(2002: £387,421)* 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 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 £1,595,983. An interim valuation was undertaken in December 2003, with no change to the September 2001 valuation.

Notes *(continued)*

9 Stocks

	2003 £	2002 £
Raw materials	**430,285**	443,384
Work in progress	**254,455**	162,120
Finished goods and goods for resale	**345,340**	366,430
	1,030,080	971,934

10 Debtors

	2003 £	2002 £
Trade debtors	**4,064,100**	2,423,625
Other debtors	**102,179**	70,974
Amounts owed by ultimate parent undertaking	**3,326,600**	1,523,321
Deferred taxation (note 13)	**-**	312,969
	7,492,879	4,330,889

11 Creditors: amounts falling due within one year

	2003 £	2002 £
Trade creditors	**726,660**	631,315
Bills of exchange payable	**34,116**	25,519
Obligations under finance leases	**38,577**	119,376
Other taxation and social security	**327,749**	216,147
Other creditors	**2,033**	3,446
Amount owed to parent undertaking	**7,000,000**	4,000,000
Accruals and deferred income	**1,002,390**	765,649
Corporation tax	**509,864**	-
	9,641,389	5,761,452

Notes *(continued)*

12 Creditors: amounts falling due after more than one year

	2003 £	2002 £
Holding company loan	**286,887**	286,887
Obligations under finance leases (due within five years)	**-**	38,225
	286,887	325,112

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:

	2003 £	2002 £
In one year or less	**38,577**	119,376
Between one and two years	**-**	38,225
	38,577	157,601

13 Deferred taxation

Deferred tax at 30% *(2002:30%)* is as follows:

	£
At 31 December 2002	(312,969)
Charge for year	389,849
At 31 December 2003	**76,880**

The elements of deferred taxation are as follows:

	2003 £	2002 £
Corporation tax losses	**-**	(369,360)
Difference between accumulated depreciation and capital allowances	**76,880**	56,391
	76,880	(312,969)

Notes *(continued)*

14 Called up share capital

	2003 £	2002 £
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

15 Commitments

At 31 December 2003 the company had annual commitments under non-cancellable operating leases as follows:

	2003 £	2002 £
Expiring:		
- within one year	-	-
- between two and five years inclusive	**67,387**	42,692
- expiring after five years	**130,107**	120,291
	197,494	162,983

16 Reserves

	Capital reserve £	Revaluation Reserve £	Profit and loss account £
At beginning of year	1,380,676	365,625	1,198,599
Transfer of revaluation reserve to profit & loss	-	(9,375)	9,375
Profit for the year	-	-	2,295,545
Dividends	-	-	(3,000,000)
	1,380,676	356,250	503,519

Notes *(continued)*

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 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 in the year was £11,764 *(2002: £10,546)*.

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