**ESA McIntosh Limited**

Directors' report and financial statements
Registered number 90149
31 December 2004



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# Company information

| | |
|---|---|
| Directors | W McColl<br>H Balfour<br>G McSporran<br>R McDonald |
| Company secretary | AI Paterson |
| Registered office | Mitchelston Drive<br>Kirkcaldy<br>KY1 3LX |
| Bankers | Bank of Scotland<br>Carberry Road<br>Kirkcaldy<br>KY1 3PA |
| Solicitors | Pagan Business Law<br>8 Manor Place<br>Edinburgh |
| Auditors | KPMG Audit Plc<br>191 West George Street<br>Glasgow<br>G2 2LJ |

# Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2004.

## 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 satisfied with the trading results for the year.

The directors anticipate this level of profitability will at least be maintained in the forthcoming year.

## Dividends and transfer to reserves

The profit for the financial year was £2,347,436 *(2003: £2,295,545)*. The directors proposed a final dividend payment of £2,000,000 *(2003: £3,000,000)*

## Directors and directors' interests

The directors of the company during the year were:
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. W McColl and R McDonald had the following interests in the ordinary shares of Havelock Europa PLC:

| | **Ordinary shares of 10p each** | |
|---|---|---|
| | **31 December 2004** | 31 December 2003 |
| W McColl | 277,477 | 277,477 |
| R McDonald | 35,150 | 15,950 |

## 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

**G MacSporran**
*Director*

Mitchelston Drive
Kirkcaldy

5 April 2005

## 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 2004 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*

10 October 2005

# Profit and loss account

*for the year ended 31 December 2004*

| | Note | 2004 £ | 2003 £ |
|---|---|---|---|
| **Turnover** | 2 | **22,738,925** | 20,997,227 |
| Cost of sales | | **(15,353,789)** | (13,412,248) |
| **Gross profit** | | **7,385,136** | 7,584,979 |
| Distribution costs | | **(1,558,151)** | (1,363,304) |
| Administrative expenses | | **(2,726,120)** | (3,012,901) |
| ***Operating profit*** | | **3,100,865** | 3,208,774 |
| Net interest receivable and similar charges | 5 | **283,762** | 68,046 |
| **Profit on ordinary activities before taxation** | 6 | **3,384,627** | 3,276,820 |
| Tax on profit on ordinary activities | 7 | **(1,037,191)** | (981,275) |
| **Profit for the financial year** | | **2,347,436** | 2,295,545 |
| Dividend paid – equity | | **(2,000,000)** | (3,000,000) |
| **Profit/(loss) transferred to/(from) reserves** | | **347,436** | (704,455) |

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

There were no gains or losses in the current or preceding financial year other than the profit/(loss) for the financial year

# Balance sheet
*at 31 December 2004*

| | Note | 2004 £ | 2004 £ | 2003 £ | 2003 £ |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible assets | 8 | | **3,331,881** | | 3,373,289 |
| **Current assets** | | | | | |
| Stocks | 9 | **1,238,236** | | 1,030,080 | |
| Debtors | 10 | **9,447,986** | | 7,492,879 | |
| Cash at bank and in hand | | **1,339,377** | | 449,353 | |
| | | **12,025,599** | | 8,972,312 | |
| **Creditors:** amounts falling due within one year | 11 | **(12,271,832)** | | (9,641,389) | |
| **Net current liabilities** | | | **(246,233)** | | (669,077) |
| **Total assets less current liabilities** | | | **3,085,648** | | 2,704,212 |
| **Creditors:** amounts falling due after more than one year | 12 | | **(286,887)** | | (286,887) |
| Provisions for liabilities and charges | 13 | | **(110,880)** | | (76,880) |
| **Net Assets** | | | **2,687,881** | | 2,340,445 |
| **Capital and reserves** | | | | | |
| Called up share capital | 14 | | **100,000** | | 100,000 |
| Capital reserve | 16 | | **1,380,676** | | 1,380,676 |
| Revaluation reserve | 16 | | **346,094** | | 356,250 |
| Profit and loss account | 16 | | **861,111** | | 503,519 |
| **Equity shareholders' funds** | | | **2,687,881** | | 2,340,445 |

These financial statements were approved by the board of directors on 5 April 2005 and were signed on its behalf by:

**G MacSporran**
*Director*

## Reconciliation of movements in equity shareholders' funds

*for the year ended 31 December 2004*

| | 2004<br>£ | 2003<br>£ |
|---|---|---|
| **Profit for the financial year** | **2,347,436** | 2,295,545 |
| Dividend paid | **(2,000,000)** | (3,000,000) |
| **Net addition to/(reduction in) shareholders' funds** | **347,436** | (704,455) |
| Opening shareholders' funds | **2,340,445** | 3,044,900 |
| **Closing shareholders' funds** | **2,687,881** | 2,340,445 |

## Statement of historical cost profits and losses

*For the year ended 31 December 2004*

| | 2004<br>£ | 2003<br>£ |
|---|---|---|
| **Reported profit on ordinary activities before taxation** | **3,384,627** | 3,276,820 |
| **Difference between a historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount** | **10,156** | 9,375 |
| **Historical cost profit on ordinary activities before taxation** | **3,394,783** | **3,286,195** |

# 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 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.

***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.

***Related Parties***

As the company is a wholly owned subsidiary of Havelock Europa plc, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Havelock Europa plc, within which this company is included, can be obtained from the address given in note 18.

## 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 in the United Kingdom.

### 3 Remuneration of directors

| | **2004** | 2003 |
|---|---|---|
| | **£** | £ |
| Directors' emoluments | **263,991** | 334,562 |

The emoluments of the highest paid director were £164,500 *(2003: £154,224)*. 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:

| | 2004 | 2003 |
|---|---|---|
| Production | **170** | 156 |
| Selling and distribution | **27** | 21 |
| Administration | **17** | 16 |
| | **214** | 193 |

The aggregate payroll costs of these persons were as follows:

| | 2004 £ | 2003 £ |
|---|---|---|
| Wages and salaries | **4,423,198** | 3,991,945 |
| Social security costs | **437,044** | 387,796 |
| Other pension costs | **17,639** | 11,764 |
| | **4,877,881** | 4,391,505 |

### 5 Net interest receivable and similar charges

| | 2004 £ | 2003 £ |
|---|---|---|
| Interest receivable on bank funds | **284,803** | 76,072 |
| Interest payable on finance leases | **(1,041)** | (8,026) |
| | **283,762** | 68,046 |

### 6 Profit on ordinary activities before taxation

| | 2004 £ | 2003 £ |
|---|---|---|
| *Profit on ordinary activities before tax is stated after charging/(crediting):* | | |
| Auditors' remuneration | **24,000** | 20,205 |
| Hire of plant and machinery | **16,819** | 15,733 |
| Other operating lease rentals | **227,426** | 179,837 |
| Depreciation of tangible fixed assets | | |
| - owned by the company | **326,528** | 312,026 |
| - held under finance leases | **46,818** | 73,342 |
| Gain on disposal of tangible fixed assets | **(12,272)** | (6,492) |

## Notes *(continued)*

### 7 Taxation

| | | 2004 £ | 2003 £ |
|---|---|---|---|
| Corporation tax | - current year | **(746,000)** | (509,864) |
| | - adjustments in respect of previous year | **(13,191)** | - |
| | - adjustments in respect of group relief payable | **(244,000)** | (81,562) |
| Total corporation tax | | **(1,003,191)** | (591,426) |
| Deferred taxation | - current year | **(32,000)** | (20,489) |
| | - adjustments in respect of prior periods | **(2,000)** | (369,360) |
| Total deferred tax | | **(34,000)** | (389,849) |
| Tax charge on profit on ordinary activities | | **(1,037,191)** | (981,275) |

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

| | 2004 £ | 2003 £ |
|---|---|---|
| **Profit on ordinary activities before tax** | **3,384,627** | 3,276,820 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% *(2003 : 30%)* | **1,015,388** | 983,046 |
| Effects of: | | |
| Deferred tax timing differences | **(32,000)** | (20,489) |
| Expenses not deductible for tax purposes | **6,612** | 608 |
| Relief for losses brought forward | **-** | (369,360) |
| Other | **-** | (2,379) |
| Adjustments in respect of prior periods | **13,191** | - |
| Corporation tax charge | **1,003,191** | 591,426 |

## 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 | 2,054,234 | 3,130,677 | 299,435 | 948,646 | 6,432,992 |
| Additions | 75,597 | 136,320 | 28,320 | 93,479 | 333,716 |
| Disposals | | | (78,789) | | (78,789) |
| At end of year | 2,129,831 | 3,266,997 | 248,966 | 1,042,125 | 6,687,919 |
| ***Depreciation*** | | | | | |
| At beginning of year | 102,001 | 2,001,527 | 223,754 | 732,421 | 3,059,703 |
| Charge for year | 38,147 | 209,574 | 27,206 | 98,419 | 373,346 |
| Disposals | | | (77,011) | | (77,011) |
| At end of year | 140,148 | 2,211,101 | 173,949 | 830,840 | 3,356,038 |
| ***Net book value*** | | | | | |
| **At 31 December 2004** | **1,989,683** | **1,055,896** | **75,017** | **211,285** | **3,331,881** |
| At 31 December 2003 | 1,952,233 | 1,129,150 | 75,681 | 216,225 | 3,373,289 |

The net book value of tangible fixed assets includes an amount of £173,175 *(2003: £221,773)* 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

| | 2004 £ | 2003 £ |
|---|---|---|
| Raw materials | **576,154** | 430,285 |
| Work in progress | **231,575** | 254,455 |
| Finished goods and goods for resale | **430,507** | 345,340 |
| | **1,238,236** | 1,030,080 |

### 10 Debtors

| | 2004 £ | 2003 £ |
|---|---|---|
| Trade debtors | **6,095,297** | 4,064,100 |
| Other debtors | **177,657** | 102,179 |
| Amounts owed by ultimate parent undertaking | **3,175,032** | 3,326,600 |
| | **9,447,986** | 7,492,879 |

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

| | 2004 £ | 2003 £ |
|---|---|---|
| Trade creditors | **2,242,419** | 1,315,147 |
| Bills of exchange payable | **13,935** | 34,116 |
| Obligations under finance leases | **-** | 38,577 |
| Other taxation and social security | **414,503** | 327,749 |
| Other creditors | **1,412** | 2,033 |
| Amount owed to parent undertaking | **9,000,000** | 7,000,000 |
| Accruals and deferred income | **327,063** | 413,903 |
| Corporation tax | **272,500** | 509,864 |
| | **12,271,832** | 9,641,389 |

## Notes *(continued)*

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

| | 2004 £ | 2003 £ |
|---|---|---|
| Holding company loan | **286,887** | 286,887 |

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

### 13 Deferred taxation

Deferred tax at 30% *(2003:30%)* is as follows:

| | £ |
|---|---|
| At 31 December 2003 | 76,880 |
| Charge for year | 34,000 |
| **At 31 December 2004** | **110,880** |

The elements of deferred taxation are as follows:

| | 2004 £ | 2003 £ |
|---|---|---|
| Difference between accumulated depreciation and capital allowances | **110,880** | 76,880 |

## Notes *(continued)*

### 14 Called up share capital

| | 2004 £ | 2003 £ |
|---|---|---|
| ***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 2004 the company had annual commitments under non-cancellable operating leases as follows:

| | 2004 £ | 2003 £ |
|---|---|---|
| Expiring: | | |
| - within one year | **2,690** | - |
| - between two and five years inclusive | **278,001** | 67,387 |
| - expiring after five years | - | 130,107 |
| | **280,691** | 197,494 |

None of these commitments were in respect of land or buildings.

### 16 Reserves

| | Capital reserve £ | Revaluation reserve £ | Profit and loss account £ |
|---|---|---|---|
| At beginning of year | 1,380,676 | 356,250 | 503,519 |
| Transfer of revaluation reserve to profit & loss | - | (10,156) | 10,156 |
| Profit for the year | - | - | 2,347,436 |
| Dividends | - | - | (2,000,000) |
| At end of year | 1,380,676 | 346,094 | 861,111 |

## 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 £18,864 *(2003: £11,764)*.

### 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 smallest and 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.