MGM Timber (Scotland) Limited

Directors' report and financial statements

Registered number SC129921

31 March 2012

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Directors and advisers

Directors

MN Donaldson MSc
IR Hawkins CA
S Cairns
D Mansell
B Smith
G Wilson

Secretary

IR Hawkins CA

Registered Office

Haig House
Balgonie Road
Markinch
KY7 6AQ

Auditor

KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Directors' report

The directors have pleasure in submitting their annual report and audited financial statements for the year ended 31 March 2012.

Principal activities

The principal activity of the company continues to be that of a timber merchant.

Review of the business

There was a modest recovery in the housing and construction sectors during the year, however, trading conditions remained challenging. Despite this the Company managed to grow its turnover by 12% to £36.4 million.

Extremely competitive pricing was prevalent across all of our product groups which resulted in downward pressure on our margins. Overheads were generally well controlled with the main exceptions being rises in fuel and energy costs.

The directors consider that the profit outcome for the year at £1.18 million represents a commendable performance in volatile circumstances.

The principal risks and uncertainties affecting the business, together with the Company's approach to them, are considered to be:

- Market conditions – much of the Company's business is concerned with the new build housing market in the UK. Conditions for UK house builders improved on the previous year. However, fragile consumer confidence and restrictions on the availability of funding suggest that the outlook for the year ahead remains uncertain.

- Credit risk – the Company maintains strong relationships with each of its key customers and has robust credit control procedures in place.

- Raw material availability and prices – the Company monitors raw material sources on a global basis and has long standing relationships with key suppliers. This has served the business well in the past and is predicted to do so again in the coming year should prices continue to increase and timber shortages arise.

Key performance indicators include the monitoring of profitability and the management of working capital.

The Company has produced a strong trading performance and improved its cash flow significantly. As such, the directors consider that it is well placed to perform well in the year ahead.

The results for the year are shown on page 6.

Dividend

A dividend of £195,500 (*2011: £174,000*) was paid during the year.

Directors

The current directors are shown on page 1.

Directors' report *(continued)*

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

IR Hawkins
Secretary

Markinch
Fife
29 June 2012

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG
United Kingdom

Independent auditor's report to the members of MGM Timber (Scotland) Limited

We have audited the financial statements of MGM Timber (Scotland) Limited for the year ended 31 March 2012 set out on pages 6 to 17. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Hugh Harvie (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

29 June 2012

Profit and loss account

for the year ended 31 March 2012

	Notes	**2012 £000**	2011 £000
Turnover		**36,432**	32,626
Cost of sales		**(27,488)**	(24,158)
Gross profit		**8,944**	8,468
Distribution costs		**(654)**	(549)
Administrative expenses		**(7,174)**	(6,938)
Operating profit		**1,116**	981
Interest receivable and similar income	*5*	**33**	33
Interest payable and similar charges	*6*	**(13)**	(10)
Amounts written of investments	*10*	**(86)**	-
Income from investments		**131**	-
Profit on ordinary activities before taxation	*2*	**1,181**	1,004
Tax on profit on ordinary activities	*7*	**(299)**	(294)
Profit on ordinary activities after taxation		**882**	710

Other than the profit for the financial year and the previous year there were no recognised gains or losses.

All activities of the company are continuing operations.

The notes on pages 9 to 17 form part of the financial statements

Balance sheet

as at 31 March 2012

	Notes	2012 £000	2011 £000
Fixed assets			
Tangible assets	*9*	**785**	866
Investments	*10*	**-**	86
		785	952
Current assets			
Stocks	*11*	**2,122**	1,956
Debtors	*12*	**6,138**	5,057
Cash at bank and in hand		**2,735**	1,775
		10,995	8,788
Creditors: amounts falling due within one year	*13*	**(8,303)**	(6,942)
Net current assets		**2,692**	1,846
Total assets less current liabilities		**3,477**	2,798
Provisions for liabilities and charges	*14*	**(65)**	(73)
Net assets		**3,412**	2,725
Capital and reserves			
Called up share capital	*16*	**45**	45
Revaluation reserve	*17*	**33**	37
Profit and loss account	*18*	**3,334**	2,643
Shareholders' funds	*19*	**3,412**	2,725

These accounts were approved by the board of directors on 29 June 2012 and were signed on its behalf by:

S Cairns
Director

D Mansell
Director

Note of historical cost profits and losses

for the year ended 31 March 2012

	2012 £000	2011 £000
Reported profit on ordinary activities before taxation	**1,181**	1,004
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	**4**	4
Historical cost profit on ordinary activities before taxation	**1,185**	1,008
Historical cost profit for the year retained after taxation and dividends	**691**	540

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 financial statements.

Basis of preparation

The company's financial statements are prepared under the historical cost convention, modified to include the revaluation of certain fixed assets, and in accordance with applicable accounting standards.

The financial statements have been prepared on a going concern basis which the directors believe to be appropriate for the following reasons. The financing arrangements applicable to the company form part of wider financing arrangements involving all the operations of its parent company, James Donaldson & Sons Limited and its subsidiaries. These annual banking facilities were recently extended to 31 May 2013. The directors of James Donaldson & Sons Limited have prepared detailed cash flow forecasts for all its operations and are satisfied that the group has adequate headroom in its forecasts to continue to operate within the agreed financing arrangements for the foreseeable future. Accordingly, the directors of this company continue to adopt the going concern basis in preparing the annual financial statements. The financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

Under FRS1, the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary of James Donaldson and Sons Limited and its cash flows are included within the consolidated cash flow statement of that company.

As the Company is a wholly owned subsidiary of James Donaldson & Sons Limited, 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 (or investees of the group qualifying as related parties). The consolidated financial statements of James Donaldson & Sons Limited, within which this Company is included, can be obtained from the address given in note 23.

Revenue recognition

Turnover represents the amounts (excluding value added tax and net of trade discounts) derived from the provision of goods to customers during the year. Turnover is recognised when goods are supplied or delivered and the risk of ownership has passed to the customer, and when the amount receivable is fixed or determinable.

Depreciation

The company's policy is to provide depreciation on all tangible assets other than land at rates which are calculated to write off the cost or valuation of tangible assets in equal annual instalments over their estimated useful lives as follows:

Leasehold property improvements	- over term of lease
Plant & Equipment	- 4% - 20% per annum

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. 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.

Stocks

Stocks are valued at the lower of cost and net realisable value.

Notes *(continued)*

1 Accounting policies *(continued)*

Investments

Investments are stated at cost less provision for permanent impairment.

Pensions

The company participates in a group pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. The company is unable to identify its share of the underlying assets and liabilities of the scheme and therefore accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

The company also operates a defined contribution scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Share based payments

The long term incentive scheme permits certain senior group employees to be rewarded for sustained long term profit growth and commitment to the group, in the form of cash or shares in James Donaldson & Sons Limited. The element of this arrangement settled in shares is accounted for as cash settled share based payment transaction.

For cash settled share based payment transactions, with the exception of those awards settled before 31 March 2006, the fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. The fair value is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value is based on the share price at the date of award. The liability is revalued at each balance sheet date and settlement date with any changes to fair value being recognised in the profit and loss account.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company

.

2 Profit on ordinary activities before tax

Profit on ordinary activities before tax is stated after charging:	**2012 £000**	2011 £000
Depreciation of tangible assets	**141**	132
Operating Lease cost - plant and equipment	**496**	489
- other	**102**	86
Lease of land and buildings	**789**	772
Auditor's remuneration - audit of these financial statements	**12**	11
- other services relating to taxation	**3**	2

3 Staff costs and directors' emoluments

	Number of employees 2012	2011
Administration	**82**	77
Production	**80**	75
	162	152

Notes *(continued)*

3 Staff costs and directors' emoluments *(continued)*

	2012 £000	2011 £000
Wages and salaries	**3,678**	3,470
Social security costs	**430**	346
Defined contribution pension scheme costs	**118**	127
Defined benefit pension scheme costs	**2**	2
	4,228	3,945
Directors' emoluments		
Emoluments', excluding pension contributions	**279**	410

The emoluments of the highest paid director were £129,735 *(2011: £153,655)*. Amounts receivable under long term incentive schemes were £16,490 *(2011: £Nil)*. Retirement benefits are accruing under the defined contribution pension schemes to 3 directors *(2011:4)*.

4 Share Based Payment

The long term incentive plan scheme permits certain senior employees to be rewarded, for sustained long term profit growth and commitment to the company, in the form of cash or shares in James Donaldson & Sons Limited. At the end of each year cash or shares are provisionally allocated to the individuals provided predetermined profit targets are met. The cash or shares will automatically vest if the participant remains within the employment of the company for 3 years following the award

.

The company has 1 *(2011: 2)* employees participating in the Groups long term incentive plan. Amounts receivable under the plan are as follows:

	No. of shares	£
Share based liability at 31 March 2011	**26,329**	59,240
Exercised during the year	**(17,329)**	(38,990)
Awarded during year	**17,618**	39,641
Share based liability at 31 March 2012	**26,618**	59,891

The weighted average share price at the date the shares vested was £2.25. For share awards outstanding at the end of the year, the exercise price was £2.25 with maturity ranging from 15 months to 33 months.

The total expense recognised in respect of share-based payment transactions was £39,641 *(2011: £7,613)*.

5 Interest receivable and similar income

	2012 £000	2011 £000
Bank interest receivable	**33**	33

6 Interest payable and similar charges

	2012 £000	2011 £000
On inter group loans	**13**	10

Notes *(continued)*

7 Tax on profit on ordinary activities

Analysis of charge for the year

	2012 £000	2011 £000
Corporation tax		
UK corporation tax	307	304
Adjustment in respect of previous years	-	(5)
Total current taxation	307	299
Deferred tax (note14)		
Origination and reversal of timing differences	(3)	-
Adjustments in respect of previous years	(5)	(5)
Tax on profit on ordinary activities	299	294

Factors affecting the tax charge for the year

The current tax charge in the year is equal to (*2011: higher*) the standard rate of corporation tax in the UK 26%, (*2011: 28%*). The differences are explained below.

	2012 £000	2011 £000
Profit on ordinary activities before tax	1,181	1,004
Profit on ordinary activities at the standard rate of corporation tax in the UK of 26%(*2011: 28%*).	307	281
Effects of:		
Expenses not deductible for tax purposes	32	8
Difference between depreciation and capital allowances	3	1
Depreciation on non qualifying assets	13	14
Adjustment in respect of previous years	-	(5)
Non taxable income	(34)	-
Group relief received at nil consideration	(14)	-
Current tax charge for the year	307	299

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. A reduction in rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and a further reduction to 24% (effective from 1 April 2012) was substantively enacted on 26 March 2012.

This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 March 2012 has been calculated based on the rate of 24% substantively enacted at the balance sheet date. It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax liability accordingly.

Notes *(continued)*

8 Dividends

	2012 £000	2011 £000
Interim dividends paid in respect of the current year	**92**	113
Final dividends paid in respect of prior year but not recognised as liabilities in that year	**103**	61
	195	174

9 Tangible fixed assets

	Leasehold Property £000	Equipment £000	Total £000
Cost or valuation			
At 31 March 2011	846	1,051	1,897
Additions		52	52
Inter group transfers	3	48	51
At 31 March 2012	849	1,151	2,000
Depreciation			
At 31 March 2011	303	728	1.031
Charge for year	58	83	141
Inter group transfers	3	40	43
At 31 March 2012	364	851	1,215
Net book value			
At 31 March 2012	**485**	**300**	**785**
At 31 March 2011	543	323	866

In respect of certain fixed assets stated at valuations, the comparable historical cost and depreciation values are as follows:

	2012 £'000	2011 £'000
Net book value at end of year	**39**	43
Historical cost at beginning and end of year	**2**	2
Depreciation:		
At beginning and end of year	**1**	1
Historical cost net book value:		
At beginning and end of year	**1**	1

Notes *(continued)*

10 Fixed asset investments

	Shares in Subsidiary undertakings Total £000
Cost	
At 31 March 2011	**86**
Amounts written off	**(86)**
At 31 March 2012	-

The assets and liabilities of the subsidiary, Leader Timber Limited, were transferred to MGM Timber (Scotland) Ltd on 1st April 2011. Since then Leader Timber Limited has been dormant and was subsequently wound up.

11 Stocks

	2012 £000	2011 £000
Finished goods and goods for resale	**2,122**	1,956

12 Debtors

	2012 £000	2011 £000
Trade debtors	**4,945**	3,982
Amounts owed by group undertakings	**383**	228
Prepayments and accrued income	**810**	847
	6,138	5,057

13 Creditors: amounts falling due within one year

	2012 £000	2011 £000
Trade creditors	**4,938**	4,020
Amounts owed to group undertakings	**1,481**	985
Amounts owed to parent undertaking	**829**	833
Corporation tax	**121**	277
Taxation and social security	**138**	69
Other creditors	**796**	758
	8,303	6,942

Notes *(continued)*

14 Provision for liabilities and charges

Deferred taxation

	Accelerated capital allowances £000
At 31 March 2011	73
Credited to profit and loss account	(8)
At 31 March 2012	**65**

15 Commitments under operating leases

	2012		2011	
	Land & Buildings £000	**Other items £000**	Land & Buildings £000	Other items £000
Operating leases which expire:				
Within 1 year	**3**	**78**	26	103
Within 2 to 5 years	**128**	**379**	86	332
After more than 5 years	**656**	**38**	643	88
	787	**495**	755	523

16 Share capital

	2010 £000	2011 £000
Authorised		
45,000 Ordinary shares of £1 each	**45**	45
Allotted, called up and fully paid		
Ordinary shares of £1 each	**45**	45

17 Revaluation reserve

	2012 £000	2011 £000
At beginning of year	**37**	41
Transferred to the profit and loss account	**(4)**	(4)
At end of year	**33**	37

Notes *(continued)*

18 Profit and loss account

	2012 £000	2011 £000
At beginning of year	**2,643**	2,103
Profit for the financial year	**882**	710
Dividends paid (note 8)	**(195)**	(174)
Transfer from revaluation reserve	**4**	4
At end of year	**3,334**	2,643

19 Reconciliation of movements in shareholders' funds

	2012 £000	2011 £000
Profit for the financial year	**882**	710
Dividends paid	**(195)**	(174)
	687	536
Opening shareholders' funds	**2,725**	2,189
Closing shareholders' funds	**3,412**	2,725

20 Contingent liabilities

MGM Timber (Scotland) Limited has granted guarantees in favour of the Bank of Scotland for all sums due between James Donaldson & Sons Limited, James Donaldson Timber Limited, MGM Timber (Scotland) Limited, Donaldson Timber Engineering Limited, Parker Kislingbury Limited and Namsen Investments Limited. The maximum amount guaranteed across the group is £11 million.

21 Pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £117,573 *(2011: £126,524)*.

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

The Company is also a member of a pension scheme providing benefits based on final pensionable pay. Because the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits', the scheme has been accounted for, in these financial statements as if the scheme was a defined contribution scheme.

The latest full actuarial valuation for James Donaldson & Sons Limited Managed Pension Plan was carried out at 6 April 2009 . The contribution for the year was £1,967 *(2011: £1,896)*. An employer contribution rate of 18.8% of pensionable pay currently applies.

22 Post balance sheet event

Subsequent to the year end, the annual bank facility renewal of James Donaldson & Sons Limited and its subsidiaries in which this company is a part were extended to 31 May 2013.

Notes *(continued)*

23 Ultimate parent company

The ultimate parent company is James Donaldson and Sons Limited which is incorporated in Great Britain and registered in Scotland.

The accounts of this company are available from Companies House, 4th Floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, EH3 9FF.