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SAMUEL HEATH & SONS PLC

Report and Accounts
for the year ended 31st March 2002

SAMUEL HEATH

Samuel Heath

Contents

DIRECTORS AND OFFICERS

Directors:	Samuel B. Heath* *(Chairman)* David J. Pick *(Managing Director)* David J. Richardson FCMA *(Financial Director)* Martin J. Legge *† *(Senior Non-executive)* David F. Coplestone *† *(Non-executive)* Charles J.B. Flint, LLB *† *(Non-executive)* William J. Lancashire *(Director)* David B. Legge, I.Eng.*† *(Non-executive)* *Member of remuneration committee † Member of audit committee
Secretary:	John Park
Group Management Board:	Neil Bosworth
Registered Office:	Leopold Street Birmingham B12 OUJ Registered No. 31942
Registrar:	Northern Registrars Limited Northern House Woodsome Park Fenay Bridge Huddersfield HD8 OLA
Auditors:	Moore Stephens Charterhouse Legge Street Birmingham B4 7EU
Solicitors:	Shakespeares Somerset House, Temple Street, Birmingham B2 5DJ
Nominated adviser and nominated broker:	Williams de Broe Plc 1 Waterloo Street Birmingham B2 5PG

CHAIRMAN'S STATEMENT

We had a very successful second six months and the profit for the year ending March 31st 2002 was £1,252,000, a significant increase over budget. This was achieved in far from ideal circumstances, and is a credit to all concerned. We managed to maintain or increase our market share in most of the areas in which we operate.

We continue to be interested in buying companies in similar fields to ourselves. We have had a look at a number in the last year, but none have proved attractive.

It may be of interest to shareholders to know that over the last three years, we have spent in excess of £1,000,000 on new plant and equipment. The factory looks very different than it did a few years ago. We continue to re-equip and have sufficient funds available to do so.

As will be apparent from the accounts, the Group continues to have a strong balance sheet and your Directors believe that a purchase of the Company's shares at the right price level could benefit the Company, and thereby its shareholders. Accordingly, your Directors are seeking your approval for the purchase of up to 15% of the issued share capital, 397,906 shares, between Annual General Meetings.

During the last year the Company bought back 25,000 shares.

Now we have to look at the current year. I may be accused of being over-cautious in previous years, but we have to look at business prospects as we see them. Our budget shows that we will not make the same profit, and in fact it is likely to be down considerably. I also have to report that we have not been reaching this budget in the first three months' trading. At the present time, there is no sign of an uplift.

As a footnote to these accounts, you will see our situation with regard to disclosures under the FRS17 accounting directive for our final salary pension schemes. While all the rest of the accounts show a long term balanced picture of the Company, this shows a snap shot of where these schemes are at one date in time. We are in our current position, we understand, for various reasons, including the recent indifferent performance of those insurers operating our schemes, the plundering of all pension schemes by the government, and because we have not had wholesale "reorganisations" of our Company, with the accompanying redundancies, and hence many deferred pensions. Rather we have been rewarding our successful staff at all levels of the Company, above the forecast rates for the schemes, for producing such satisfactory trading results. You will remember that both these schemes have been closed to new entrants since November 2000.

Even as I write this, full implementation of FRS17 has been postponed, and it appears likely that the eventual way pension disclosures are dealt with, will be the one decided by the International Accountancy Standards Board.

Your Board is recommending a final dividend of 8 pence per share, making a total of 13 pence for the year, as against 12 pence last time.

Sam Heath
Chairman

23rd July 2002

Directors' Report

Activities

The Group engages in the manufacture and marketing of a wide range of products in the builders' hardware and bathroom field. The Chairman's Statement on page 3 contains a review of the development of the business during the year and an indication of future prospects.

Results

The detailed results for the year and the recommended appropriations are shown on page 10.

Purchase of own shares

On 12th April, 24th April and 20th September 2001 the Company purchased 12,500, 7,500 and 5,000 respectively, ordinary 10 pence shares, representing 0.9% of the called up share capital for a total consideration of £64,500. The purchases were for the longer term enhancement of shareholder value.

Directors

The directors, whose names are shown below, held office at the end of the year.

The numbers of ordinary shares in which the directors had an interest were as follows:-

Beneficial interests:	31st March 2002	31st March 2001
S. B. Heath	487,081	487,081
D. F. Coplestone	104,500	104,500
C. J .B. Flint	6,000	6,000
W. J. Lancashire	3,750	3.750
D. B. Legge	16,000	16,000
M.J. Legge	30,000	30,000
D. J. Pick	3,000	3,000
D. J. Richardson	2,000	2,000
Non-beneficial interests:		
M. J. Legge	17,500	17,500

The directors retiring by rotation are Mr. M.J. Legge and Mr. D.J. Pick who offer themselves for re-election. Mr. D.F. Coplestone retires having attained age 70. A resolution will be proposed that he be re-elected. None of them has a service contract with the Company.

Non-executives

Mr. M.J. Legge has held a number of directorships in both public and private companies during his working life and he has been on the board for 24 years. He is the Senior Independent Director.

Mr. D.F. Coplestone initially began working in the advertising agency field both in London and Birmingham. After a spell as a very successful independent selling agent, he worked for Samuel Heath & Sons PLC for 27 years.

DIRECTORS' REPORT
(continued)

Mr. D.B. Legge is an engineering graduate of Loughborough University. He spent a successful career in the lock manufacturing industry as a director of a major company in that field.

Mr. C.J.B. Flint is a solicitor. He holds directorships of a number of private companies. He is also on the Board of Governors of the University of Central England.

None of the directors has a material interest in any contract of significance except that during the year Mr. D.B. Legge's firm was paid £8,975 for engineering consultancy services.

Other major shareholdings

The Company has been notified of the following other major shareholdings at 31st March 2002.

	Number of Shares
C. A. Heath	383,710
G. S. Heath	383,710
S. A. Perkins (née Heath)	282,810

Employees

Full and fair consideration is given to applications for employment from disabled persons and to continuing the employment of those who become disabled while employed. The policy is to give equal opportunity for training, career development and promotion.

The awareness and involvement of employees in the Group's performance is achieved by consultation and negotiation in meetings involving employees at all levels. An active Works Committee has been in operation for many years.

Corporate Governance

In June 1998 the Committee on Corporate Governance issued recommendations known as the Combined Code and these were incorporated into the Listing Agreement of the London Stock Exchange. The Board adopted these principles in years past and retain them, although not technically necessary for an AIM listed company.

The Board has applied the principles of the Code in a manner which it considers appropriate to the particular circumstances of Samuel Heath & Sons PLC. The structure of the Group is not complicated and the activities are focused entirely on manufacturing and marketing those products.

The Chairman and Chief Executive Officer are separate posts.

The non-executive directors, who are of independent mind, are appointed to provide a balance at board meetings and to contribute their knowledge and experience and comprise half the Board.

Membership of the Nominations Committee, which will be chaired by the Chairman of the Board, will be decided when the need arises.

DIRECTORS' REPORT
(continued)

The Remuneration Report below sets out the principles adopted in regard to directors' remuneration.

Relations with shareholders are maintained by communicating with investors at annual general meetings and regular circulation of the company's house magazine.

With regard to accountability and audit, the Audit Committee comprises the four non-executive directors under the chairmanship of Mr. M.J. Legge. The Committee maintained a robust relationship with the auditors in relation to the audit and other controls. The Board has reviewed internal controls and considers they are able to provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board monitors the effectiveness of the system of internal controls by way of the organisational structure and a comprehensive system of budgeting and detailed reporting. Capital expenditure is subject to approval by the Board.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing accounts.

Remuneration report

Members of the Remuneration Committee are noted on page 2.

The Committee seeks to develop remuneration packages for the executive directors that are both competitive and a fair reflection of an individual's contribution and value to the Company. The total remuneration of the directors has two components:-

Basic salary and benefits
Annual cash bonus

The basic salary of each executive director is reviewed annually. In doing so, consideration is given by the Committee not only to rates of pay in business of comparable size and nature, but also to individually relevant factors, including the director's own performance during the year.

Annual performance related bonuses are linked closely to the overall financial performance of the Group. The Group does not have any long term incentive schemes.

No director has a service contract.

Executive directors have been entitled to join the Samuel Heath & Sons Pension Scheme. Their participation in the scheme is on the same basis as for all other eligible employees. Pensionable salary includes all bonuses as the Committee consider the bonuses should be meaningful and motivating and therefore an integral part of remuneration.

The remuneration of the non-executive directors is determined by the Board. The remuneration reflects both the amount of time given and contributions made to the Company's affairs.

The Committee has given consideration to Schedule B of the best practice provisions annexed to the Listing Rules of the Financial Services Authority.

DIRECTORS' REPORT
(continued)

Policy on payment of creditors

The Company's policy for the payment of creditors is to make payment in accordance with agreed terms and conditions of trade.

At 31st March 2002 the Company's creditor days compared to the value of supplier invoices received in the year was 51 (2001: 53).

Derivatives and other financial instruments

Financial Reporting Standard 13 requires us to explain the role that derivatives and other financial instruments play in the Group's activities.

The Group is financed by operational cash flow and any surplus cash is placed short term on the money market. There are currently no borrowings.

Some trading takes place in foreign currencies but exposure at any one time is at a sufficiently low level for the Board to consider the currency risk acceptable.

Auditors

A resolution to re-appoint the auditors Moore Stephens will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

S.B. Heath
Chairman

23rd July 2002

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period. In preparing those accounts, 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 accounts.

- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group and 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 Group and the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT

To the shareholders of Samuel Heath & Sons PLC

We have audited the financial statements of Samuel Heath & Sons Plc for the year ended 31st March 2002 set out on pages 10 to 23. These financial statements have been prepared under the historical cost convention and the accounting policies set out on pages 13 and 14.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 affairs of the Company and of the Group at 31st March 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Moore Stephens
Chartered Accountants
and Registered Auditor

Charterhouse
Legge Street
Birmingham B4 7EU

23rd July 2002

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 31st March 2002

	Notes	2002 £000	2002 £000	2001 £000	2001 £000
Turnover	(3)		**12,832**		11,879
Cost of sales			**6,010**		5,558
Gross profit			**6,822**		6,321
Distribution costs		**440**		414	
Administrative expenses		**5,192**	**5,632**	4,824	5,238
Operating profit	(4)		**1,190**		1,083
Interest receivable			**62**		83
Profit on ordinary activities before taxation			**1,252**		1,166
Taxation	(5)		**254**		264
Profit on ordinary activities after taxation			**998**		902
Deduct: **Dividends**					
Interim of 5.0 pence per share (2001: 5.0 pence)		**133**		134	
Proposed final of 8.0 pence per share (2001: 7.0 pence)		**212**	**345**	186	320
Added to reserves	(13)		**653**		582
Earnings per share The profit after taxation, £998,000 related to 2,655,917 ordinary shares, being the average number in issue during the year (2001: £902,000 related to 2,693,061 ordinary shares)			37.6 pence		33.5 pence

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31st March 2002

	Notes	2002 £000	2001 £000
Profit on ordinary activities after taxation		**998**	902
Prior year adjustment	(2)	**(115)**	–
Total recognised gains since last annual report		**883**	902

BALANCE SHEETS

31st March 2002

	Notes	Group 2002 £000	Group 2001 Restated £000	Parent company 2002 £000	Parent company 2001 Restated £000
Fixed assets					
Tangible assets	(6)	**2,953**	2,634	**2,953**	2,634
Investments	(7)	**–**	–	**399**	399
		2,953	2,634	**3,352**	3,033
Current assets					
Stocks	(8)	**2,033**	1,877	**2,033**	1,877
Debtors	(9)	**2,153**	2,181	**2,153**	2,181
Cash at bank		**2,215**	1,991	**2,215**	1,991
		6,401	6,049	**6,401**	6,049
Creditors: amounts falling due within one year					
Corporation tax		**315**	255	**315**	255
Amounts owed to Group undertakings		**–**	–	**1,052**	1,052
Other creditors	(10)	**1,837**	1,830	**1,837**	1,830
		2,152	2,085	**3,204**	3,137
Net current assets		**4,249**	3,964	**3,197**	2,912
Total assets less current liabilities		**7,202**	6,598	**6,549**	5,945
Creditors: amounts falling due after more than one year	(10)	**33**	26	**33**	26
Provision for liabilities and charges	(11)	**380**	371	**380**	371
Net assets		**6,789**	6,201	**6,136**	5,548
Financed by					
Capital and reserves					
Called up share capital	(12)	**265**	268	**265**	268
Capital redemption reserve	(13)	**98**	96	**98**	96
Profit and loss account	(13)	**6,426**	5,837	**5,773**	5,184
Equity shareholders' funds		**6,789**	6,201	**6,136**	5,548

Signed on behalf of the Board on 23rd July 2002.

S. B. Heath
Chairman

GROUP CASH FLOW STATEMENT

for the year ended 31st March 2002

	Notes	2002 £000	2002 £000	2001 £000	2001 £000
Net cash inflow from operating activities	(19)		**1,460**		1,357
Returns on investments and servicing of finance					
Interest received		**62**		83	
Net cash inflow from returns on investments and servicing of finance			**62**		83
Taxation					
U.K. corporation tax paid			**(185)**		(313)
Capital expenditure					
Purchase of tangible fixed assets		**(768)**		(540)	
Sale of tangible fixed assets		**39**		48	
Net cash outflow for capital expenditure			**(729)**		(492)
Management of liquid resources					
Increase in short-term deposits			**(396)**		(164)
Financing					
Purchase of own shares		**(65)**		(49)	
Net cash outflow for financing			**(65)**		(49)
Equity dividends paid			**(319)**		(310)
(Decrease)/increase in cash	(20)		**(172)**		112

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31st March 2002

		2002 £000		2001 £000
Profit for the financial year		**998**		902
Dividends		**(345)**		(320)
		653		582
Purchase of own shares		**(65)**		(49)
Opening shareholders' funds	**6,201**		5,783	
Prior year adjustment	**–**	**6,201**	(115)	5,668
Closing shareholders' funds		**6,789**		6,201

NOTES FORMING PART OF THE ACCOUNTS
31st March 2002

1. Accounting policies

Basis of the accounts
These accounts have been prepared in accordance with applicable accounting standards and on the historical cost basis of accounting. They do not include the parent company's own profit and loss account in accordance with the exemption available under section 230 Companies Act 1985.

Accounting policies have been consistently applied except as detailed below for the adoption of new accounting standards for the year.

FRS 17 'Retirement benefits' is being adopted in line with the transitional timetable laid down. Disclosures for the year are shown in note 17.

FRS 18 'Accounting policies' which sets out the principles to be followed when selecting accounting policies, has been adopted. The directors have reviewed the Group's existing accounting policies and consider they are appropriate.

FRS 19 'Deferred tax' has been adopted. This requires that full provisioning is made for deferred taxation on timing differences, replacing the previous partial provisioning policy. The comparative figures have been restated in accordance with this change in policy.

Basis of consolidation
The consolidated accounts incorporate the state of affairs at 31st March 2002 of all the subsidiaries in the Group. On the acquisition of a subsidiary the fair value of the underlying net assets is brought into the consolidation.

Turnover
Turnover is the invoiced value of sales excluding V.A.T. and excluding transactions within the Group.

Stocks
Stocks are valued at the lower of historical cost (which includes overheads where appropriate) and net realisable value.

Research and development
Expenditure on research, patents and trade marks is written off in the year in which it is incurred.

Deferred taxation
Deferred tax has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in the future, or a right to pay less taxation in the future. An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain. Deferred assets and liabilities have not been discounted.

Foreign currencies
Assets and liabilities expressed in foreign currencies are translated into sterling at year end exchange rates. Any differences arising are written off to the profit and loss account.

Depreciation and amortisation
Depreciation is provided on all tangible fixed assets, except freehold land, at such rates as will write off the costs of those assets over their estimated useful lives. With minor exceptions the rates used are as follows:

Freehold buildings	2% p.a. on cost
Long leasehold land and buildings	2% p.a. on cost
Plant and equipment	10% p.a. on cost
Computer equipment	25% p.a. on cost
Vehicles	25% p.a. on cost

Goodwill arising on acquisition made after 23rd December 1998 is amortised over 20 years. Goodwill on earlier acquisitions was written off against reserves but will be taken into account if and when the respective businesses are disposed of.

NOTES FORMING PART OF THE ACCOUNTS
(continued)

1. Accounting policies *(continued)*

Pensions
The costs of providing pensions for employees are charged in the profit and loss account over the average working life of employees in accordance with recommendations of qualified actuaries. Funding surpluses or deficits that may arise from time to time are amortised over the average working life of employees.

Note 17 also contains additional disclosures as required by FRS17 'Retirement Benefits'.

Leased assets
Assets held under finance leases are capitalised and included in tangible fixed assets at fair value. Each asset is depreciated over the shorter of the lease term or its useful life. Obligations related to finance leases, net of finance charges in respect of future periods, are included as appropriate under creditors amounts falling due within or after more than one year. The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period. Rentals under operating leases are charged to the profit and loss account as a straight line basis.

2. Restatement of prior period

The Group has adopted the provisions of FRS19 'Deferred tax'. This requires recognition of deferred taxation on a full provision basis for all timing differences, which has resulted in a restatement of results for the year ended 31st March 2001. The adjustment of £115,000 does not affect the profit and loss account as it relates to prior periods.

3. Turnover

All sales originated in the United Kingdom.

An analysis of turnover between destinations is:-

	2002	2001
	£000	£000
Overseas	**4,644**	4,459
Home	**8,188**	7,420
	12,832	11,879

No detailed analysis of overseas turnover is given as, in the opinion of the directors, the disclosure of such information would be seriously prejudicial to the interests of the Group.

NOTES FORMING PART OF THE ACCOUNTS
(continued)

4. Operating profit

Operating profit is stated after charging the following:-

	2002		2001	
	£000	**£000**	£000	£000
Directors' emoluments for the year:				
Fees	**27**		26	
Management remuneration (salaries and benefits)	**312**		310	
Performance related payments	**65**	**404**	44	380
Depreciation (less surplus on disposals £3,000)		**410**		332
Hire and leasing of vehicles		**69**		74
Auditors remuneration:				
Audit		**30**		30
Other services		**7**		8
Credit for contributions to pension scheme		**–**		(84)

5. Taxation

	2002		2001	
	£000	**£000**	£000	£000
Corporation tax		**315**		255
Transfer to/(from) deferred taxation to equalise capital allowances	**9**		40	
Future tax relief on provision for contributions to pension scheme	**–**	**9**	25	65
Overprovision for prior years		**(70)**		(56)
		254		264

NOTES FORMING PART OF THE ACCOUNTS
(continued)

6. Tangible fixed assets of the group and of the company

	Total £000	Land and buildings £000	Plant and equipment £000	Vehicles £000
Cost				
At 31st March 2001	5,213	1,380	3,475	358
Additions	768	39	581	148
Disposals	(117)	–	–	(117)
At 31st March 2002	**5,864**	**1,419**	**4,056**	**389**
Aggregate depreciation				
At 31st March 2001	2,579	370	2,086	123
Charge for the year	413	27	297	89
Disposals	(81)	–	–	(81)
At 31st March 2002	**2,911**	**397**	**2,383**	**131**
Book value				
At 31st March 2002	**2,953**	**1,022**	**1,673**	**258**
At 31st March 2001	2,634	1,010	1,389	235

The book value at 31st March 2002 of land and buildings is made up as follows:-

	2002 £000	2001 £000
Freehold land and buildings	**882**	867
Long leasehold land and buildings	**140**	143
	1,022	1,010

The net book value of freehold land and buildings includes £46,000 (2001: £46,000) in respect of land which is not depreciated.

The net book value of motor vehicles includes an amount of £95,000 (2001: £91,000) in respect of assets held under finance leases. The depreciation charge for the year was £36,000 (2001: £13,000).

7.(a) Investments

	2002 Company £000	2001 Company £000
Shares in subsidiaries		
Cost at 31st March 2001	**852**	852
Amount written off to date	**453**	453
Book value at 31st March 2002	**399**	399

7.(b) Details of subsidiary companies

All subsidiaries are wholly owned and are dormant.

The cumulative amount of goodwill purchased up to 23rd December 1998 and written off against reserves in respect of subsidiaries which remained in the group at 31st March 2002 was £518,000.

NOTES FORMING PART OF THE ACCOUNTS
(continued)

8. Stocks

	2002 Group and Company £000	2001 Group and Company £000
Raw material	**527**	483
Work in progress	**819**	683
Goods for resale	**687**	711
	2,033	1,877

9. Debtors

	2002 Group and Company £000	2001 Group and Company £000
Trade debtors	**1,896**	1,934
Prepayments	**257**	247
	2,153	2,181

Included within prepayments is a pension cost prepayment of £165,000 (2001: £165,000) which is recoverable after more than one year.

10. Creditors

	Amounts falling due within one year	
	2002 Group and Company £000	2001 Group and Company £000
Trade creditors	**1,144**	1,153
Accruals	**164**	196
Social security income tax and V.A.T.	**309**	295
Proposed dividend	**212**	186
Obligations under finances leases	**8**	–
	1,837	1,830

	Amounts falling due after more than one year	
	2002 Group and Company £000	2001 Group and Company £000
Obligations under finance leases		
Between 1 and 2 years	**15**	–
Between 2 and 5 years	**18**	26
	33	26

NOTES FORMING PART OF THE ACCOUNTS
(continued)

11. Deferred taxation

	2002 Group and Company £000	2001 Group and Company £000
Deferred tax liability at 31st March 2001, as originally stated	**256**	191
Prior year restatement (note 2)	**115**	–
Deferred tax liability at 31st March 2001, as restated	**371**	191
Charge in respect of accelerated capital allowances	**9**	40
Charge in respect of tax relief on contributions prepaid to pension scheme	–	25
Deferred tax liability at 31st March 2002	**380**	256

12. Share capital

	2002 Company £000	2001 Company £000
Authorised		
5,000,000 Ordinary shares of 10 pence each	**500**	500
Allotted, called up and fully paid		
2,652,712 (2001: 2,677,712) Ordinary shares of 10 pence each	**265**	268

In April 2001 the company purchased 20,000 of its own shares for a total consideration of £51,000 and in September 2001 the company purchased 5,000 of its own shares for a total consideration of £13,500.

13. Reserves

	Profit and loss account 2002		**Capital redemption reserve 2002**	
	Group £000	**Company £000**	**Group £000**	**Company £000**
At 31st March 2001, as previously stated	**5,952**	**5,299**	**96**	**96**
Prior year restatement (note 2)	**(115)**	**(115)**	–	–
At 31st March 2001, as restated	**5,837**	**5,184**	**96**	**96**
Premium on redemption of shares	**(62)**	**(62)**	–	–
Transfer to capital redemption reserve	**(2)**	**(2)**	**2**	**2**
Retained profit	**653**	**653**	–	–
At 31st March 2002	**6,426**	**5,773**	**98**	**98**

NOTES FORMING PART OF THE ACCOUNTS
(continued)

14. Particulars of staff

The average number of employees (including directors) during the year was as follows:-

	2002	2001
Monthly paid	**80**	78
Weekly paid	**154**	147
	234	225

The total staff costs were as follows:-

	£'000	£'000
Wages and salaries	**4,501**	4,106
Social security costs	**314**	295
Defined benefit pension scheme costs	**686**	554
	5,501	4,955

	2002 Group and Company £000	2001 Group and Company £000
Directors' emoluments	**404**	380

	Number	Number
Retirement benefits accruing to the following number of directors under:-		
Defined benefit schemes	**3**	3

The amounts paid in respect of the highest paid director are as follows:-

	£'000	£'000
Emoluments	**117**	108
Accumulated total accrued pension at the year end	**30**	24
Total accrued lump sum at the year end	**70**	57

15. Future capital expenditure

The approximate amount at 31st March 2002 of capital expenditure not provided for in these accounts was as follows:-

	2002 Group and Company £000	2001 Group and Company £000
Contracted for	**33**	182

NOTES FORMING PART OF THE ACCOUNTS
(continued)

16. Operating leases

The company has annual commitments under operating leases which expire as follows:-

	Other (Motor vehicles)	
	2002	2001
	Group and Company	Group and Company
	£000	£000
Less than one year	**9**	8
Between one and five years	**2**	21

17. Pension commitments

(a) Disclosures in accordance with Statement of Standard Accounting Practice 24

The company operates two pension schemes to provide benefits based on final pensionable pay for the majority of its employees. The assets of these schemes are held separately from those of the company, being invested with insurance companies. Contributions to the schemes are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Company. The contributions are determined by qualified actuaries on the basis of triennial valuations.

The most recent valuation of the staff pension scheme was at 1st July 2000 and was made on the projected accrued benefit method. The main long term actuarial assumptions were that the rate of investment return would exceed increases in earnings by 2.5% per annum compound. Employer's contributions are now made at the rate of 20% per annum from 1st July 2002 (previously 21%) to include an addition for solvency.

This actuarial valuation showed that the market value of the scheme's assets was £3,441,000 and that the actuarial value of those assets represented 92% of the benefits that had accrued to members after allowing for expected future increases in earnings.

The most recent valuation of the works pension scheme was at 6th April 2001 and was made on the projected unit method. The main long term actuarial assumptions were that the average rate of investment returns would be 8.5% per annum compound and that increases in earnings would average 4.0% per annum compound. Employer's contributions are now made at the rate of 12.6% per annum from 1st April 2002 (previously 10.1%).

This actuarial valuation showed that the market value of the scheme's assets was £1,680,000 and that the actuarial value of those assets represented 72% of the benefits that had accrued to members after allowing for expected future increases in earnings.

In accordance with SSAP 24 any consequent additions to or savings in the Company's contributions are taken to the profit and loss account over the average expected future service life of the current employees.

The pension cost charge for the year shows a significant increase compared to that in the previous accounting period on account of the recognition of expected increases in future costs due to changes in the age profile of the scheme membership.

Present arrangements

The directors decided to close the above schemes to new members, and new employees joining the company from 1st November 2000 are, following a period of qualification, invited to join a new defined contribution scheme. The employer's contribution rate for this scheme is 7% per annum.

NOTES FORMING PART OF THE ACCOUNTS
(continued)

17. Pension commitments *(continued)*

(b) Additional disclosures in accordance with Financial Reporting Standard 17

The valuations used for FRS 17 disclosures have been based on the full actuarial valuations referred to above and updated to 31st March 2002 by the actuaries.

The major assumptions used by the actuaries were:

Inflation assumption	2.8%
Rate of increase in salaries	4.0%
Rate of increase for pensions in payment	3.0%
Discount rate	5.9%

The fair value of the assets in the schemes and the expected rates of return at 31st March 2002 were:

	Staff scheme		Works scheme	
	Long-term rate of return expected per annum	Proportion of fund	Long-term rate of return expected per annum	Proportion of fund
Insurance policy investment profile:				
Equities	8.0%	53%	7.9%	80%
Property	8.0%	15%		
Bonds	7.0%	12%	5.9%	12%
Fixed interest	6.0%	16%		
Other	5.3%	4%	5.9%	8%
		£'000		£'000
Total value of policy	7.5%	3,530	7.5%	1,550
Secured pensions in payment	5.9%	1,432		
Total market value of assets		4,962		
Present value of scheme liabilities		5,985		2,110
Deficit in the scheme		1,023		560
Total deficit				1,583
Related deferred tax asset				475
Net pension liability				1,108

		31st March 2002 £'000
Net assets		
Net assets before pension liability		6,789
Pension liability	1,108	
SSAP 24 asset to be reversed upon implementation of FRS 17 (net of deferred tax)	115	1,223
Net assets after pension liability		5,566
Reserves		
Profit and loss reserve before pension liability		6,426
Pension liability	1,108	
SSAP 24 asset to be reversed upon implementation of FRS 17 (net of deferred tax)	115	1,223
Profit and loss reserve after pension liability		5,203

NOTES FORMING PART OF THE ACCOUNTS
(continued)

18. Financial instruments

Details of the Group's policy on financial instruments are given in the directors' report on page 7.

(a) The currency and interest rate profile of the Group's financial assets at 31st March 2002, excluding short-term debtors and creditors.

	Total £000	**Short-term floating rate deposits £000**	**Deposits on which no interest received £000**	2001 Total £000
Currency				
Sterling	**2,080**	**1,960**	**120**	1,748
Other	**135**	**33**	**102**	243
	2,215	**1,993**	**222**	1,991

Floating rate deposits are held on deposit for variable periods at prevailing money market rates.

(b) Currency exposure at 31st March 2002.
Non-sterling net foreign currency monetary assets at 31st March 2002 totalled £674,000 (2001: £780,000)

19. Reconciliation of operating profit to net cash inflow from operating activities

	2002 Group and Company £000	2001 Group and Company £000
Operating profit	**1,190**	1,083
Depreciation charges less surplus on disposals	**410**	332
Pension scheme credit	**–**	(84)
Increase in stocks	**(156)**	(180)
Decrease/(increase) in debtors	**28**	(63)
(Decrease)/increase in creditors	**(12)**	269
Net cash inflow from operating activities	**1,460**	1,357

20. Reconciliation of net cash flow to movement in net funds

	2002 £000	2001 £000
(Decrease)/increase in cash in the period	**(172)**	112
Cash outflow for management of liquid resources	**396**	164
	224	276
Net funds at 31st March 2001	**1,991**	1,715
Net funds at 31st March 2002	**2,215**	1,991

NOTES FORMING PART OF THE ACCOUNTS
(continued)

21. Analysis of net funds

	At 31st March 2002 £000	Cash flow £000	At 31st March 2001 £000
Bank balances	**255**	(172)	427
Short term deposits	**1,960**	396	1,564
Cash at bank per balance sheet	**2,215**	224	1,991

22. Controlling party
For the purposes of FRS 8 the Company is controlled by its Chairman Mr. S.B. Heath and his close family.

NOTICE OF MEETING

Notice is hereby given that the one hundred and twelfth Annual General Meeting of the Company will be held at the registered office of the Company, Leopold Street, Birmingham on 23rd August 2002 at 12.00 noon.

The general business of the meeting will be to consider and, if thought fit, pass the following resolutions:

1. *That the Directors' report and audited accounts for the year ended 31st March 2002 be* approved and adopted.

2. That a final dividend for the year ended 31st March 2002 of 8.0 pence per share be declared payable on 23rd August 2002 to ordinary shareholders registered at the close of business on 26th July 2002.

3. That Mr. M.J. Legge who retires by rotation be re-elected a director.

4. That Mr. D.J. Pick who retires by rotation be re-elected a director.

5. That Mr. D.F. Coplestone who retires having attained the age of 70 be re-elected a director.

6. That Moore Stephens be re-appointed as auditors and that the directors be authorised to fix their remuneration

As special business to consider and, if thought fit, to pass the resolutions of which Resolutions 7 and 8 will be proposed as an Ordinary Resolution and Resolution 9 as a *Special Resolution.*

7. That the company be authorised, pursuant to Article 10 of the Articles of Association of the Company, to make market purchases (within the meaning of Section 163 of the Companies Act 1985) on the London Stock Exchange up to a cumulative maximum of 397,906 ordinary shares of 10 pence each in the capital of the Company at a price of not less than 10 pence per ordinary share and not more than 5% above the average of the middle market quotations of the ordinary shares as derived from the Stock Exchange Daily Official List on the 5 dealing days before the purchase.

The prices specified above are exclusive of expenses.

The authority hereby conferred shall expire at the next Annual General Meeting unless previously varied, revoked or renewed by the Company in General Meeting, provided that the Company shall be permitted to make any contract of purchase of any such shares which will or may be executed wholly or partly after the authority hereby conferred shall have expired.

8. That the Directors of the Company be and they are hereby generally and unconditionally authorised, (in substitution for any authorities previously granted to the Directors), pursuant to Section 80 of the Companies Act 1985 ("the Act"), to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80(2) of the Act) up to an aggregate nominal amount of £26,527 provided that this authority shall expire on 24th August 2007 save that the Company may before such expiry make offers, agreements or arrangements which would or might require relevant securities to be allotted after such expiry and so that the Directors of the Company may *allot relevant securities in pursuance of such offers, agreements or arrangements as if* the authority conferred hereby had not expired.

NOTICE OF MEETING
(continued)

9. That the Directors of the Company be and they are hereby empowered pursuant to Section 95(1) of the Act to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the authority conferred by Resolution 8 as if Section 89(1) of the Act did not apply to any such allotment, PROVIDED THAT this power shall be limited to a) the allotment of equity securities in connection with or pursuant to an offer by way of rights issue or open offer to the holders of equity shares in the Company in proportion (as nearly as may be) to such holders' holdings of such shares but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with legal or practical problems in respect of overseas shareholders, fractional entitlements or otherwise and b) the allotment (otherwise than pursuant to (a) above) of equity securities for cash up to an aggregate nominal amount of £26,527 provided that this power shall expire at the conclusion of the next Annual General Meeting of the Company or, if later, 15 months from the passing of this resolution, save that the Company may before such expiry make offers, agreements or arrangements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuance of such offers, agreements or arrangements as if the power conferred hereby had not expired.

By order of the Board

J. Park
Secretary

23rd July 2002

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Notes:

1. Any member entitled to attend and vote at the above Meeting may appoint one or more persons as proxies, who need not also be members, to attend and vote on his behalf. Proxy forms must be lodged with the Registrar not later than 48 hours before the time fixed for the meeting.

2. A statement of the share transactions of each Director for the twelve months to 23rd June 2002 is available for inspection at the registered office during usual business hours on any weekday (excluding Saturdays and public holidays) until 22nd August 2002 and will also be available at the Annual General Meeting from 11.45 a.m. until 15 minutes after the meeting is closed.

SAMUEL HEATH & SONS PLC

Leopold Street, Birmingham B12 0UJ, England