

Lyreco UK Limited

Annual report and financial statements
for the year ended 31 December 2001

Registered number: 442696



Directors' report

For the year ended 31 December 2001

The directors present their annual report on the affairs of the company, together with the financial statements and auditors' report, for the year ended 31 December 2001.

Principal activity and business review

The company's principal activity continues to be the distribution of office products.

On 1 January 2001, the company acquired certain of the trade and assets of European Stationers Limited, a fellow subsidiary undertaking.

During the year the company continued its major investment in additional salespeople excluding the above acquisition. This contributed to sales growth for the year of 26.5% (2000 – 27.6%) and the net profit margin improved to 3.7% in 2001 from 2.9% in 2000.

The company relocated to a new purpose built office block and warehouse in October 2001. This is the latest development in Lyreco's massive growth over the last few years and represents a £20m investment in our future.

The site is based just a few miles away from our previous site in Donnington Wood, Telford but is significantly bigger to allow for our exciting future expansion plans that we anticipate will see our sales turnover exceed £300m by 2005, with our stated goal to be not only the best supplier of office products in the UK but also the biggest.

Dividends

The directors do not recommend payment of a dividend (2000 - £Nil).

Directors and their interests

The directors who served during the year and subsequently were as follows:

S W Law
E Bigeard (French)
D Fullwood
A Kristiansen (Danish)

Mr E Bigeard is the holder of one £1 ordinary share. None of the other directors have interests in the share capital of the company. With the exception of Mr E Bigeard, none of the directors have any interest in the shares of the ultimate holding company.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Directors' report (continued)

Employee consultation

The company is committed to involve all employees in the performance and development of the company. Employees are encouraged to discuss with management matters of interest to the employee and subjects affecting day to day operations of the company.

Environmental Management System

During the year our Environmental Management System has been externally audited by SGS Yarsley twice. One minor non-conformance was raised at each external visit, both of which have been successfully resolved and signed off by SGS Yarsley.

Our Environmental Management Systems was audited regularly throughout the year by our internal audit team, and the audits covered procedures, programmes for improvement, process records, document control and the successful resolution of corrective action.

The Improvement Programme significantly features sent to landfills, and our target of 50% was exceeded with 59% of waste now being diverted from landfill sites. New improvement targets have been introduced and the further segregation of paper recycling was introduced into the offices and strategic areas of the Distribution Centre during the year.

It is anticipated that by the last quarter of the year 2002, we will operate an integrated ISO 9001 and ISO 14001 Management System. SGS Yarsley will assess the new system and will continue to audit it as members of UKAS.

Deer Park Court
Donnington Wood
Telford
Shropshire
TF2 7NB



By order of the Board,

S Law

Director

5 July 2002

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 of the company 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; 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 proper accounting records which 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 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

To the Shareholders of Lyreco UK Limited:

We have audited the financial statements of Lyreco UK Limited for the year ended 31 December 2001 which comprise the Profit and Loss Account, the Balance Sheet and the related notes numbered 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom accounting standards are set out in the Statement of Directors' Responsibilities. 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 opinion

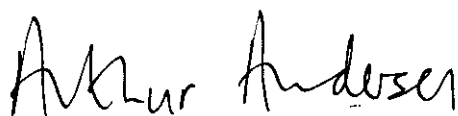
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company, 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.

Independent auditors' report (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 December 2001 and of the company's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink, appearing to read 'Arthur Andersen', is written in a cursive style.

Arthur Andersen

Chartered Accountants and Registered Auditors

Four Brindleyplace
Birmingham
B1 2HZ

5 July 2002

Profit and loss account

For the year ended 31 December 2001

	Notes	2001 £'000	2000 £'000
Turnover	1		
Existing operations		142,596	112,710
Acquisitions		9,629	-
Continuing operations		152,225	112,710
Net operating costs	2	(145,888)	(109,253)
Operating profit			
Existing operations		7,312	3,457
Acquisitions		(975)	-
Continuing operations		6,337	3,457
Finance charges (net)	3	(645)	(151)
Profit on ordinary activities before taxation	4	5,692	3,306
Tax on profit on ordinary activities	7	(1,363)	-
Retained profit for the financial year	17	4,329	3,306
Retained deficit, brought forward		(8,985)	(12,291)
Retained deficit, carried forward	17	(4,656)	(8,985)

There are no recognised gains or losses in either year other than the profit for each year.

On 1 January 2001 the company acquired certain of the trade and trading assets of a fellow subsidiary.

The accompanying notes are an integral part of this profit and loss account.

Balance sheet
31 December 2001

	Notes	2001 £'000	2000 £'000
Fixed assets			
Intangible assets	8	45	90
Tangible assets	9	27,891	13,286
Investments	10	-	-
		<u>27,936</u>	<u>13,376</u>
Current assets			
Stocks	11	8,146	9,768
Debtors	12	32,086	27,171
Cash at bank and in hand		457	4,234
		<u>40,689</u>	<u>41,173</u>
Creditors: Amounts falling due within one year	13	<u>(35,837)</u>	<u>(33,154)</u>
Net current assets		<u>4,852</u>	<u>8,019</u>
Total assets less current liabilities		32,788	21,395
Creditors: Amounts falling due after more than one year	14	<u>(15,812)</u>	<u>(8,826)</u>
Provisions for liabilities and charges	15	<u>(78)</u>	<u>-</u>
Net assets		<u>16,898</u>	<u>12,569</u>
Capital and reserves			
Called-up share capital	16	14,841	14,841
Share premium account	17	6,634	6,634
Revaluation reserve	17	79	79
Profit and loss account	17	<u>(4,656)</u>	<u>(8,985)</u>
Shareholders' funds	18	<u>16,898</u>	<u>12,569</u>
Shareholders' funds may be analysed as:			
Equity interests		2,113	(2,216)
Non-equity interests		<u>14,785</u>	<u>14,785</u>
		<u>16,898</u>	<u>12,569</u>

The financial statements on pages 6 to 18 were approved by the board of directors and signed on its behalf by:

S Law



Director

5 July 2002

The accompanying notes are an integral part of this balance sheet.

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Statement of accounting policies

31 December 2001

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold property, and in accordance with applicable accounting standards.

The company has taken advantage of the exemption from preparing consolidated financial statements afforded by Section 228 of the Companies Act 1985 because it is a wholly owned subsidiary of Lyreco UK Holdings Limited which prepares consolidated financial statements which are publicly available. The company is also, on this basis, exempt from the requirement of FRS 1 to present a cash flow statement.

Intangible assets – goodwill

Goodwill arising on the acquisition of businesses, representing any excess on the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is 10 years. Provision is made for any impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Freehold buildings	2%-5% per annum
Leasehold properties and improvements	10% per annum
Plant and machinery	20% per annum
Motor vehicles	20%-25% per annum
Furniture and office equipment	20% per annum
Computers	20%-33.33% per annum

Residual value is calculated on prices prevailing at the date of acquisition or revaluation.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Stocks

Stocks are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price, less further costs to disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Statement of accounting policies (continued)

Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced.

Leases

Rentals under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Pension costs and other post retirement benefits

For the defined benefit scheme, the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future payroll. Variations from regular cost are charged or credited to the profit and loss account as a constant percentage of payroll costs over the estimated average remaining working life of scheme members. The defined benefit scheme is funded, with the assets of the scheme held separately from those of the company in separate trustee administered funds. Differences between amounts charged to the profit and loss account and amounts funded are shown as either provisions or prepayments in the balance sheet.

For the defined contributions scheme, the amount charged to the profit and loss account in respect of pension costs and other post retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Notes to financial statements

31 December 2001

1 Turnover

All of turnover is derived from the company's principal activity carried out within the United Kingdom.

2 Net operating costs

	2001 £'000	2000 £'000
Changes in stocks of finished goods	1,622	(5,258)
Purchases	96,324	79,061
Staff costs		
- wages and salaries	24,675	17,869
- social security costs	2,163	1,579
- other pension costs	348	273
Depreciation and other amounts written off tangible and intangible fixed assets	1,575	1,109
Other operating charges	19,181	14,620
	<u>145,888</u>	<u>109,253</u>

In relation to the acquisition of certain of the trade and assets of European Stationers Limited, continuing operations in 2001 include cost of sales £6,714,000, gross profit £2,914,000, distribution costs £877,000, administrative expenses £3,012,000 and other operating charges £9,000.

3 Finance charges (net)

Investment income

	2001 £'000	2000 £'000
Bank interest	<u>3</u>	<u>4</u>

Interest payable and similar charges

	2001 £'000	2000 £'000
Bank loans and overdraft	<u>648</u>	<u>155</u>

Finance charges (net)

	2001 £'000	2000 £'000
Interest payable and similar charges	648	155
Less: Investment income	<u>(3)</u>	<u>(4)</u>
	<u>645</u>	<u>151</u>

Notes to financial statements (continued)

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2001 £'000	2000 £'000
Depreciation of owned fixed assets	1,530	1,064
Goodwill amortisation	45	45
Operating lease rentals		
- plant and machinery	1,767	1,469
- other	641	506
Auditors' remuneration		
- audit fees	40	25
- other	29	30
	<hr/>	<hr/>

5 Staff costs

The average monthly number of employees (including executive directors) was as follows:

	2001 Number	2000 Number
Management and administration	219	169
Distribution and sales	1,088	911
	<hr/>	<hr/>
	1,307	1,080
	<hr/>	<hr/>

Their aggregate remuneration is disclosed in note 2.

6 Directors' remuneration

Remuneration

The remuneration of the directors was as follows:

	2001 £'000	2000 £'000
Emoluments	174	157
	<hr/>	<hr/>

The number of directors who are members of pension schemes is as follows:

	2001 Number	2000 Number
Defined benefit schemes	2	2
	<hr/>	<hr/>

Notes to financial statements (continued)

7 Tax on profit on ordinary activities

	2001 £'000	2000 £'000
The tax charge comprises:		
Current tax		
UK corporation tax	1,285	-
Deferred tax	78	-
Total tax on profit on ordinary activities	<u>1,363</u>	<u>-</u>

The current year tax charge has been reduced by the availability of brought forward tax losses.

8 Intangible fixed assets

	Goodwill £'000
Cost	
At 1 January 2001 and at 31 December 2001	<u>450</u>
Amortisation	
At 1 January 2001	360
Charge for the year	<u>45</u>
At 31 December 2001	<u>405</u>
Net book value	
At 31 December 2000	<u>90</u>
At 31 December 2001	<u>45</u>

Notes to financial statements (continued)

9 Tangible fixed assets

	Land and buildings £'000	Plant, machinery and computers £'000	Motor vehicles, fixtures and fittings £'000	Assets under construction £'000	Total £'000
Cost or valuation					
At 1 January 2001	13,197	2,114	3,068	1,382	19,761
Additions	12,591	3,156	217	-	15,964
Disposals	-	-	(675)	-	(675)
Transfers	1,382	-	-	(1,382)	-
Transfers in from fellow subsidiary	46	-	170	-	216
At 31 December 2001	<u>27,216</u>	<u>5,270</u>	<u>2,780</u>	<u>-</u>	<u>35,266</u>
Depreciation					
At 1 January 2001	3,232	1,490	1,753	-	6,475
Charge for the year	548	406	576	-	1,530
Disposals	-	-	(630)	-	(630)
At 31 December 2001	<u>3,780</u>	<u>1,896</u>	<u>1,699</u>	<u>-</u>	<u>7,375</u>
Net book value					
At 31 December 2000	<u>9,965</u>	<u>624</u>	<u>1,315</u>	<u>1,382</u>	<u>13,286</u>
At 31 December 2001	<u>23,436</u>	<u>3,374</u>	<u>1,081</u>	<u>-</u>	<u>27,891</u>

The net book value of land and buildings comprises:

	2001 £'000	2000 £'000
Freehold land and buildings	23,423	9,947
Short leasehold improvements	<u>14</u>	<u>18</u>
	<u>23,437</u>	<u>9,965</u>

Freehold land and buildings includes non-depreciable land of £2,790,000 (2000 - £2,790,000).

Notes to financial statements (continued)

10 Investments

Subsidiary undertakings

£'000

Cost

At 1 January 2001 and at 31 December 2001

504

Provisions

At 1 January 2001 and at 31 December 2001

504

Net book value

At 31 December 2000 and at 31 December 2001

-

The subsidiary companies at 31 December 2001 were:

	Principal activity	Holding
Copyless Limited	Dormant	100%
Ace Stationery Limited	Dormant	100%
European Print Limited	Printers	100%

The above are holdings of ordinary shares and are directly held by the company.

11 Stocks

	2001 £'000	2000 £'000
Goods for resale	8,146	9,768

There is no material difference between the balance sheet value of stocks and their replacement cost.

12 Debtors

	2001 £'000	2000 £'000
Amounts falling due within one year:		
Trade debtors	29,432	25,878
Amounts owed by group undertakings	981	419
Other debtors	147	74
Prepayments and accrued income	1,526	800
	<u>32,086</u>	<u>27,171</u>

Notes to financial statements (continued)

13 Creditors: Amounts falling due within one year

	2001 £'000	2000 £'000
Bank overdraft	3,037	4,652
Trade creditors	16,614	21,478
Amounts owed to group undertakings	8,796	3,991
Corporation tax	764	-
Taxation and social security	1,820	830
Accruals and deferred income	4,806	2,203
	<u>35,837</u>	<u>33,154</u>

The bank overdraft is secured by a fixed and floating charge over the assets of the company and its subsidiaries.

14 Creditors: Amounts falling due after more than one year

	2001 £'000	2000 £'000
Bank loan	9,000	3,102
Amounts owed to group undertakings	6,812	5,724
	<u>15,812</u>	<u>8,826</u>

The amounts owed to group undertakings have no set repayment date, however the group undertakings involved have indicated that repayment of this amount will not be sought within one year from the balance sheet date.

The bank loan is secured against the freehold land and buildings.

Borrowings are repayable as follows:

	2001 £'000	2000 £'000
Bank loan		
Between two and five years	<u>9,000</u>	<u>3,102</u>

The bank overdraft is repayable on demand.

Notes to financial statements (continued)

15 Provisions for liabilities and charges

	Deferred taxation £'000
At 1 January 2001	-
Charged to profit and loss account	78
At 31 December 2001	<u>78</u>

Deferred tax is provided as follows:

	2001 £'000	2000 £'000
Accelerated capital allowances	107	-
Other timing differences	(29)	-
	<u>78</u>	<u>-</u>

There is no unprovided deferred tax.

16 Called-up share capital

	2001 £'000	2000 £'000
<i>Authorised</i>		
100,000 ordinary shares of £1 each	100	100
21,235,000 redeemable preference shares of £1 each	21,235	21,235
	<u>21,335</u>	<u>21,335</u>
<i>Allotted, called-up and fully-paid</i>		
56,000 ordinary shares of £1 each	56	56
14,785,000 redeemable preference shares of £1 each	14,785	14,785
	<u>14,841</u>	<u>14,841</u>

The company has the right to redeem, at par, the whole or any part of the redeemable preference shares upon giving not less than 30 days notice in writing to the shareholder.

The shareholder has the right to require the company to redeem, at par, the whole or any part of the redeemable preference shares upon giving not less than 30 days notice in writing to the company.

In any event, the company shall redeem, at par, the whole of the redeemable preference shares issued, and not previously redeemed, as at 31 December 2100; on that date.

Notes to financial statements (continued)

17 Reserves

	Share premium account £'000	Revaluation reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2001	6,634	79	(8,985)	(2,272)
Retained profit for year	-	-	4,329	4,329
At 31 December 2001	<u>6,634</u>	<u>79</u>	<u>(4,656)</u>	<u>2,057</u>

18 Reconciliation of movements in shareholders' funds

	2001 £'000	2000 £'000
Profit for the financial year	4,329	3,306
Opening shareholders' funds	<u>12,569</u>	<u>9,263</u>
Closing shareholders' funds	<u>16,898</u>	<u>12,569</u>

19 Contingent liabilities and other financial commitments

a) Financial commitments

There were no capital commitments at the year end.

Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings		Other	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Leases expiring				
- within one year	84	218	211	213
- between two and five years	326	275	1,009	818
- after five years	<u>64</u>	<u>81</u>	<u>-</u>	<u>-</u>
	<u>474</u>	<u>575</u>	<u>1,220</u>	<u>1,031</u>

b) Contingent liabilities

The company offers an unlimited guarantee on overdrafts to Copyless Limited. At 31 December 2001 the outstanding amount under guarantee was £Nil (2000 - £Nil).

Notes to financial statements (continued)

20 Pension scheme

The company provides pension arrangements to the majority of full time employees through a defined benefit scheme, which is operated by its parent company Lyreco UK Holdings Limited. In accordance with FRS 17, the company accounts for its contributions to the scheme as if it were a defined contribution scheme because it is not possible to identify the company's share of the assets and liabilities in the scheme on a consistent and reasonable basis. The latest actuarial valuation of the scheme, disclosed in the consolidated financial statements of the parent company, shows a deficit of £47,000. Further details of this valuation can be found in the annual report of Lyreco UK Holdings Limited.

The charge to the company for contributions to the defined contribution scheme during the year was £215,782 (2000 - £159,551). The charge to the company for contributions to the defined benefit scheme during the year was £132,195 (2000 - £113,814).

21 Parent companies

The immediate parent company is Lyreco UK Holdings Limited. Copies of Lyreco UK Holdings Limited consolidated financial statements are available from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.

The largest group into which the results of the company are consolidated is that of Lyreco International SA, a company incorporated in France. The smallest group into which the results are consolidated is that of Lyreco UK Holdings Limited.

As a subsidiary undertaking of lyreco International SA, the company has taken advantage of the exemption in FRS 8 "Related party disclosures" from disclosing transactions with other members of the group headed by Lyreco International SA.