

Lyreco (UK) Limited
(formerly Office International Limited)

Annual report and accounts
for the year ended 31 December 1999

Registered number: 442696



Directors' report

For the year ended 31 December 1999

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 December 1999.

Principal activity and business review

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

During 1999 the company continued its major investment in additional salespeople. This contributed to sales growth for the year of 24.4% (£17.3m) and the net profit margin improved to 2.7% in 1999 from 2.2% in 1998. The directors expect the company to continue to experience sales growth in the coming year.

On 4 January 2000 the company changed its name to Lyreco (UK) Limited.

Dividends

The directors do not recommend payment of a dividend (1998 - £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
R Vale (resigned 31 August 1999)

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.

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 company and of the profit or loss of 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; and

Directors' report (continued)

Directors' responsibilities (continued)

- prepare the accounts 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 accounts 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.

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.

Employee consultation

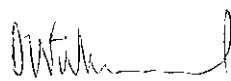
The company is committed to involve all employees in the performance and development of the company. Employees are encouraged to discuss with management matters of interest to the employee and subjects affecting day to day operations of the company.

Year 2000

Management made assessments of the current and future electronic data processing systems and embedded chip applications. On 6 April 1999 the company went live on a new SAP system which eradicated any Year 2000 issues. No significant issues arose over the period of the date change.

45 Church Street
Birmingham
B3 2DL

By order of the Board,



D Fullwood

Director

2 August 2000

To the Shareholders of Lyreco (UK) Limited (formerly Office International Limited):

We have audited the accounts on pages 4 to 15 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets, and the accounting policies set out on pages 6 and 7.

Respective responsibilities of directors and auditors

As described on pages 1 and 2 the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 December 1999 and of the company's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accountants and Registered Auditors

1 Victoria Square
Birmingham
B1 1BD

2 August 2000

Profit and loss account

For the year ended 31 December 1999

| | Notes | 1999 £'000 | 1998 £'000 |
|--|-------|-----------------|-----------------|
| Turnover | 2 | 88,307 | 70,977 |
| Net operating costs | 3 | (85,853) | (68,945) |
| Operating profit | | <u>2,454</u> | <u>2,032</u> |
| Profit on sale of tangible fixed assets | | - | 95 |
| Provision for impairment of investments | | - | (150) |
| Interest receivable | 4 | 17 | 17 |
| Interest payable and similar charges | 5 | (51) | (421) |
| Profit on ordinary activities before taxation | 6 | <u>2,420</u> | <u>1,573</u> |
| Tax on profit on ordinary activities | 9 | - | - |
| Retained profit for the financial year | 19 | <u>2,420</u> | <u>1,573</u> |
| Retained deficit, brought forward | | (14,711) | (16,284) |
| Retained deficit, carried forward | | <u>(12,291)</u> | <u>(14,711)</u> |

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

All operations of the company continued throughout both periods and no operations were acquired or discontinued.

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

Balance sheet
31 December 1999

| | Notes | 1999 £'000 | 1998 £'000 |
|--|-------|-----------------|-----------------|
| Fixed assets | | | |
| Intangible assets | 10 | 135 | 180 |
| Tangible assets | 11 | 9,283 | 9,449 |
| | | <u>9,418</u> | <u>9,629</u> |
| Current assets | | | |
| Stocks | 13 | 4,510 | 3,617 |
| Debtors | 14 | 22,810 | 15,098 |
| Cash at bank and in hand | | 1,070 | 62 |
| | | <u>28,390</u> | <u>18,777</u> |
| Creditors: Amounts falling due within one year | 15 | <u>(22,821)</u> | <u>(15,839)</u> |
| Net current assets | | <u>5,569</u> | <u>2,938</u> |
| Total assets less current liabilities | | <u>14,987</u> | <u>12,567</u> |
| Creditors: Amounts falling due after more than one year | 16 | <u>(5,724)</u> | <u>(5,724)</u> |
| Net assets | | <u>9,263</u> | <u>6,843</u> |
| Capital and reserves | | | |
| Called-up share capital | 18 | 14,841 | 14,841 |
| Share premium account | 19 | 6,634 | 6,634 |
| Revaluation reserve | 19 | 79 | 79 |
| Profit and loss account | 19 | <u>(12,291)</u> | <u>(14,711)</u> |
| Shareholders' funds | 20 | <u>9,263</u> | <u>6,843</u> |
| Shareholders' funds may be analysed as: | | | |
| Equity interests | | (5,522) | (7,942) |
| Non-equity interests | | 14,785 | 14,785 |
| | | <u>9,263</u> | <u>6,843</u> |


Signed on behalf of the Board

D Fullwood

Director



2 August 2000



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

Notes to accounts

31 December 1999

1 Accounting policies

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.

a) *Basis of accounting*

The accounts 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 is exempt by virtue of section 228 of the Companies Act 1985 from the requirement to prepare group accounts. Under the provisions of FRS1, the company is also exempt from the requirement to present a cash flow statement as it is a wholly owned subsidiary undertaking of Lyreco (UK) Limited which prepares publicly available consolidated accounts that include the company.

b) *Tangible fixed assets*

Tangible fixed assets are stated at cost or valuation, 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 |

c) *Investments*

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

d) *Stocks*

Stocks are valued 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.

e) *Deferred taxation*

Deferred taxation 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.

Notes to accounts (continued)

1 Accounting policies (continued)

f) Leases

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

g) Goodwill

Goodwill arising on the acquisition of businesses, representing any excess of 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 10 years. Provision is made for any impairment.

h) 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.

i) Pension costs and other post retirement benefits

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.

j) 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.

2 Turnover

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

Notes to accounts (continued)

3 Net operating costs

| | 1999 £'000 | 1998 £'000 |
|---|---------------|---------------|
| Changes in stocks of finished goods | (893) | (231) |
| Purchases | 58,576 | 45,518 |
| Staff costs | | |
| - wages and salaries | 13,966 | 10,932 |
| - social security costs | 1,240 | 973 |
| - other pension costs | 242 | 215 |
| Depreciation and other amounts written off tangible and intangible fixed assets | 1,076 | 2,185 |
| Other operating charges | 11,646 | 9,353 |
| | <u>85,853</u> | <u>68,945</u> |

4 Interest receivable

| | 1999 £'000 | 1998 £'000 |
|---------------|---------------|---------------|
| Bank interest | <u>17</u> | <u>17</u> |

5 Interest payable and similar charges

| | 1999 £'000 | 1998 £'000 |
|----------------|---------------|---------------|
| Bank overdraft | 51 | 77 |
| Other loans | - | 344 |
| | <u>51</u> | <u>421</u> |

Notes to accounts (continued)

6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

| | 1999 £'000 | 1998 £'000 |
|------------------------------------|---------------|---------------|
| Depreciation of owned fixed assets | 1,031 | 2,140 |
| Goodwill amortisation | 45 | 45 |
| Operating lease rentals | | |
| - plant and machinery | 1,273 | 1,046 |
| - other | 228 | 185 |
| Auditors' remuneration | | |
| - audit fees | 25 | 21 |
| - other | 30 | 21 |
| | <hr/> | <hr/> |

7 Staff costs

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

| | 1999 Number | 1998 Number |
|-------------------------------|----------------|----------------|
| Management and administration | 143 | 121 |
| Distribution and sales | 653 | 519 |
| | <hr/> | <hr/> |
| | 796 | 640 |
| | <hr/> | <hr/> |

Their aggregate remuneration is disclosed in note 3.

8 Directors' remuneration

The total amounts for directors' remuneration were as follows:

| | 1999 £'000 | 1998 £'000 |
|------------|---------------|---------------|
| Emoluments | 142 | 155 |
| | <hr/> | <hr/> |

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

| | 1999 Number | 1998 Number |
|------------------------|----------------|----------------|
| Defined benefit scheme | 2 | 2 |
| | <hr/> | <hr/> |

Notes to accounts (continued)

9 Tax on profit on ordinary activities

No tax charge arose in either year due to the utilisation of brought forward tax losses.

10 Intangible fixed assets

| | Goodwill £'000 |
|---|-------------------|
| Cost | |
| At 1 January 1999 and at 31 December 1999 | 450 |
| Amortisation | |
| At 1 January 1999 | 270 |
| Charge for the year | 45 |
| At 31 December 1999 | 315 |
| Net book value | |
| At 31 December 1998 | 180 |
| At 31 December 1999 | 135 |

11 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 1999 | 10,513 | 1,672 | 2,132 | - | 14,317 |
| Additions | 7 | 336 | 415 | 108 | 866 |
| Disposals | (88) | (73) | (81) | - | (242) |
| At 31 December 1999 | 10,432 | 1,935 | 2,466 | 108 | 14,941 |
| Depreciation | | | | | |
| At 1 January 1999 | 2,737 | 1,027 | 1,104 | - | 4,868 |
| Charge for the year | 291 | 297 | 443 | - | 1,031 |
| Disposals | (88) | (73) | (80) | - | (241) |
| At 31 December 1999 | 2,940 | 1,251 | 1,467 | - | 5,658 |
| Net book value | | | | | |
| At 31 December 1998 | 7,776 | 645 | 1,028 | - | 9,449 |
| At 31 December 1999 | 7,492 | 684 | 999 | 108 | 9,283 |

Notes to accounts (continued)

11 Tangible fixed assets (continued)

The net book value of land and buildings comprises:

| | 1999 £'000 | 1998 £'000 |
|------------------------------|---------------|---------------|
| Freehold land and buildings | 7,470 | 7,732 |
| Short leasehold improvements | 22 | 44 |
| | <u>7,492</u> | <u>7,776</u> |

Freehold land and buildings includes non-depreciable land of £25,000 (1998 - £25,000). Freehold land and buildings were revalued by the directors in 1988 on an existing use basis. If stated under historical cost principles the comparable amounts for the total of land and buildings would be:

| | 1999 £'000 | 1998 £'000 |
|--------------------------|---------------|---------------|
| Cost | 10,986 | 11,067 |
| Accumulated depreciation | (838) | (706) |
| | <u>10,148</u> | <u>10,361</u> |

12 Investments

Subsidiary undertakings

| | £'000 |
|---|------------|
| Cost | |
| At 1 January 1999 and at 31 December 1999 | <u>504</u> |
| Provisions | |
| At 1 January 1999 and at 31 December 1999 | <u>504</u> |
| Net book value | |
| At 31 December 1998 | <u>-</u> |
| At 31 December 1999 | <u>-</u> |

Notes to accounts (continued)

12 Investments (continued)

The subsidiary companies at 31 December 1999 were:

| | Principal activity | Holding |
|------------------------|--------------------|---------|
| Copyless Limited | Dormant | 100% |
| Ace Stationery Limited | Dormant | 100% |

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

13 Stocks

| | 1999 £'000 | 1998 £'000 |
|------------------|---------------|---------------|
| Goods for resale | 4,510 | 3,617 |

14 Debtors

| | 1999 £'000 | 1998 £'000 |
|------------------------------------|---------------|---------------|
| Trade debtors | 21,933 | 14,079 |
| Amounts owed by group undertakings | 92 | 559 |
| Other debtors | 279 | 57 |
| Prepayments and accrued income | 506 | 403 |
| | <u>22,810</u> | <u>15,098</u> |

15 Creditors: Amounts falling due within one year

| | 1999 £'000 | 1998 £'000 |
|------------------------------------|---------------|---------------|
| Bank overdraft | 358 | 1,352 |
| Trade creditors | 15,868 | 7,574 |
| Amounts owed to group undertakings | 3,982 | 4,336 |
| Taxation and social security | 679 | 676 |
| Accruals and deferred income | 1,934 | 1,901 |
| | <u>22,821</u> | <u>15,839</u> |

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

Notes to accounts (continued)

16 Creditors: Amounts falling due after more than one year

| | 1999 £'000 | 1998 £'000 |
|------------------------------------|---------------|---------------|
| Amounts owed to group undertakings | <u>5,724</u> | <u>5,724</u> |

The above amounts 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.

17 Provisions for liabilities and charges

No deferred taxation liability exists. The maximum potential deferred taxation asset is analysed as follows:

| | 1999 £'000 | 1998 £'000 |
|--------------------------------|---------------|---------------|
| Accelerated capital allowances | 340 | 279 |
| Tax losses available | 1,703 | 2,441 |
| Other timing differences | <u>44</u> | <u>101</u> |
| | <u>2,087</u> | <u>2,821</u> |

18 Called-up share capital

| | 1999 £'000 | 1998 £'000 |
|--|---------------|---------------|
| <i>Authorised</i> | | |
| 100,000 ordinary shares of £1 each | 100 | 100 |
| 21,235,000 redeemable preference shares of £1 each | <u>21,235</u> | <u>21,235</u> |
| | <u>21,335</u> | <u>21,335</u> |
| <i>Allotted, called-up and fully-paid</i> | | |
| 56,100 ordinary shares of £1 each | 56 | 56 |
| 14,785,000 redeemable preference shares of £1 each | <u>14,785</u> | <u>14,785</u> |
| | <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 accounts (continued)

19 Reserves

| | Share premium account £'000 | Revaluation reserve £'000 | Profit and loss account £'000 | Total £'000 |
|--------------------------|--------------------------------------|---------------------------------|-------------------------------------|----------------|
| At 1 January 1999 | 6,634 | 79 | (14,711) | (7,998) |
| Retained profit for year | - | - | 2,420 | 2,420 |
| At 31 December 1999 | <u>6,634</u> | <u>79</u> | <u>(12,291)</u> | <u>(5,578)</u> |

20 Reconciliation of movements in shareholders' funds

| | 1999 £'000 | 1998 £'000 |
|-------------------------------|---------------|---------------|
| Profit for the financial year | 2,420 | 1,573 |
| Opening shareholders' funds | <u>6,843</u> | <u>5,270</u> |
| Closing shareholders' funds | <u>9,263</u> | <u>6,843</u> |

21 Contingent liabilities and other financial commitments

a) Financial commitments

There were no capital commitments at either year end.

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

| | Land and buildings | | Other | |
|------------------------------|--------------------|---------------|---------------|---------------|
| | 1999 £'000 | 1998 £'000 | 1999 £'000 | 1998 £'000 |
| Leases expiring | | | | |
| - within one year | 27 | 34 | 178 | 153 |
| - between two and five years | 98 | 61 | 949 | 748 |
| - after five years | 76 | 86 | - | - |
| | <u>201</u> | <u>181</u> | <u>1,127</u> | <u>901</u> |

b) Contingent liabilities

The company offers an unlimited guarantee on overdrafts to Copyless Limited. At 31 December 1999 the outstanding amount under guarantee was £Nil (1998 - £Nil).

22 Pension scheme

The company's employees are eligible for membership of the funded group defined benefit pension scheme, registered in the United Kingdom. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the group. Retirement costs are assessed in accordance with the advice of an independent qualified actuary, using the projected unit method. Particulars of the most recent valuation of the group scheme can be obtained from the accounts for the year ended 31 December 1998 of the company's immediate parent undertaking, Lyreco Holdings Limited. The charge to the company for contributions to the group scheme during the year was £242,000 (1998 - £215,000). Contributions to other pension schemes were £Nil (1998 - £Nil).

23 Parent companies

The immediate parent company is Lyreco Holdings Limited. Copies of Lyreco Holdings Limited consolidated accounts 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 SA, a company incorporated in France. The smallest group into which the results are consolidated is that of Lyreco Holdings Limited.

24 Related party transactions

The directors consider the ultimate controlling party to be Lyreco SA. During the year the company made purchases amounting to £1,397,427 (1998 - £469,826) from Lyreco SA. All transactions were at arms length and on commercial business terms.

The ultimate controlling parties of Lyreco SA are G Gaspard and E Gaspard.

Transactions with entities within the Lyreco Holdings Limited group are not disclosed as the company is a wholly owned subsidiary of a company that produces consolidated accounts that are publicly available.