

W. LUNNON & COMPANY LIMITED

ANNUAL REPORT

YEAR ENDED 31 DECEMBER 1998

Registered number 457382



W. LUNNON & COMPANY LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 1998

The directors submit their report and accounts for the year ended 31 December 1998.

Principal activity

The company carries on the business of paper merchanting.

Results and dividends

The profit on ordinary activities for the year amounted to £1,638,000 after taxation.

The directors do not recommend the payment of a dividend.

Business review

Despite difficult trading conditions the company experienced only slight falls in turnover and gross profit. Overheads and financing costs remained well controlled and, as a result, there were increases in both operating profit and profit before taxation.

As at 31 December 1998 the company entered into an agreement to sell its assets and trade undertakings to its immediate holding company, Robert Horne Paper Company Limited.

Post balance sheet event

On 1 January 1999 the company entered into an agreement to act as an agent for its immediate holding company.

Fixed assets

Changes in fixed assets are set out in note 10 to the accounts.

Directors and share interests

The directors of the company at 31 December 1998 were as follows:

B J Fowler
J S Mason
S Thompson

T R Marchant was appointed a director on 1 March 1999.

None of the directors had an interest in the ordinary share capital of the company at 31 December 1998 or 1 January 1998.

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DIRECTORS' REPORT
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Disabled employees

The company gives every consideration to applications for employment from disabled persons where the requirements of the job may be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate.

Employee involvement

During the year the policy of providing employees with information about the company has been continued through a newsletter. Regular meetings are held between local management and employees to allow a free flow of information and ideas. Employees are encouraged directly to participate in the success of the business through the company's profit sharing scheme.

Charitable donations

Charitable donations made by the company during the year amounted to £876.

Year 2000

The company has conducted a thorough review of the risks associated with the effect the advent of the year 2000 may have on its computer systems. As a result, it has reprogrammed these systems where necessary to ensure that its business will proceed without disruption next year. Regular testing of systems has confirmed that they continue to accommodate the year 2000. There will be one further test in September.

In assessing the risks to its business the company has also considered the possibility of year 2000 related failures by its suppliers. It has sought appropriate assurances from them that their business will not be disrupted by the year 2000.

The euro

The directors do not anticipate that the company will trade in euros to any great extent until the euro becomes the UK's official currency. In their view this will not be for some years. They do not in any event expect the switch from sterling to the euro to present any significant problems.

Insurance of directors

The group of which the company is a member maintains insurance for directors in respect of their duties as directors of the company.

W. LUNNON & COMPANY LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 1998

Creditor payment policy

The company's payment policy in respect of the majority of its suppliers is to follow the CBI's Code of Prompt Payment Practice, copies of which are obtainable from the CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU. The company endeavours to pay smaller suppliers with whom dealings are infrequent in accordance with their stated trading terms.

Auditors

A resolution to reappoint the auditors, PricewaterhouseCoopers, will be proposed at the annual general meeting.

Statement of directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1998. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board



C Sigley
Secretary

24 August 1999

**REPORT OF THE AUDITORS TO THE MEMBERS OF
W. LUNNON & COMPANY LIMITED**

We have audited the financial statements on pages 5 to 15, which have been prepared under the historical cost convention and the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 3, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. 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 is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Milton Keynes

22 August 1999

W. LUNNON & COMPANY LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1998

	Notes	1998 £000	1997 £000
Turnover	2	25,183	25,274
Cost of sales		<u>19,521</u>	<u>19,511</u>
Gross profit		5,662	5,763
Selling expenses		1,379	1,370
Distribution expenses		1,563	1,616
Administration expenses		1,213	1,295
Other operating income		<u>(32)</u>	<u>(9)</u>
Operating profit	3	1,539	1,491
Interest receivable	7	289	259
Interest payable	8	<u>(158)</u>	<u>(166)</u>
Profit on ordinary activities before taxation		1,670	1,584
Taxation on profit on ordinary activities	9	32	520
Retained profit for the year		<u>1,638</u>	<u>1,064</u>

All trading activities relate to the continuing operations of the company as defined under Financial Reporting Standard 3 "Reporting Financial Performance".

The notes on pages 8 to 15 form part of these accounts.

W. LUNNON & COMPANY LIMITED
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
AND NOTE OF HISTORICAL COST PROFITS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 1998

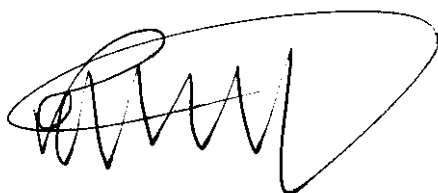
There are no recognised gains or losses other than the retained profit reported on page 5 of these statements.

	1998	1997
	£000	£000
Note of historical cost profits and losses		
Reported profit on ordinary activities before taxation	1,670	1,584
Difference between historical cost and revaluation depreciation charges	<u>10</u>	<u>11</u>
Historical cost profit on ordinary activities before taxation	<u>1,680</u>	<u>1,595</u>
 Historical cost profit for the year retained after taxation	 <u>1,648</u>	 <u>1,075</u>

W. LUNNON & COMPANY LIMITED
BALANCE SHEET 31 DECEMBER 1998

	Notes	1998 £000	1997 £000
Fixed assets			
Tangible assets	10	<u>-</u>	<u>1,276</u>
Current assets			
Stocks	11	-	1,590
Debtors	12	4,887	10,643
Cash at bank and in hand		<u>-</u>	<u>1</u>
		4,887	12,234
Creditors: amounts falling due within one year	13	<u>-</u>	<u>10,227</u>
Net current assets		<u>4,887</u>	<u>2,007</u>
Total assets less current liabilities		4,887	3,283
Provisions for liabilities and charges			
Deferred taxation	14	-	20
Other provisions	15	<u>-</u>	<u>14</u>
Net assets		<u>4,887</u>	<u>3,249</u>
Capital and reserves			
Called up share capital	16	373	373
Share premium account	17	10	10
Revaluation reserve	17	620	630
Capital redemption reserve	17	127	127
Profit and loss account	17	<u>3,757</u>	<u>2,109</u>
Total equity shareholders' funds	18	<u>4,887</u>	<u>3,249</u>

The financial statements on pages 5 to 15 were approved by the board on 24 August 1999 and were signed on its behalf by:



B J Fowler
Director

W. LUNNON & COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 1998

1. Accounting policies

Accounting convention

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of land and buildings, and in accordance with the applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of preparation

The company is included in the consolidated accounts of Buhrmann NV (previously known as NV Koninklijke KNP BT) incorporated in The Netherlands.

As permitted by section 228 of the Companies Act 1985, the company has not prepared group accounts. These accounts present information about the company as an individual undertaking and not about its group.

Cash flow statement

Under Financial Reporting Standard ('FRS 1') (revised), the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary of the ultimate parent company, Buhrmann NV, which is incorporated in an EU member state and prepares a consolidated cash flow statement in accordance with FRS 1 (revised).

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost together with any incidental costs of acquisition.

Depreciation is charged at rates calculated to write off the cost or valuation less estimated residual value of tangible fixed assets, on a straight line basis, over their expected useful lives as follows:

Freehold property	- 2% p.a.
Short leasehold improvements	- 25% p.a.
Plant, machinery and equipment	- 10% to 20% p.a.
Motor vehicles	- 25% p.a.

An amount equal to the excess of the depreciation charge on revalued assets over the notional historical cost depreciation charge on those assets has been transferred from the revaluation reserve to the profit and loss account.

Stocks

Stocks are stated at the lower of cost and net realisable value. In general cost is determined on a first in first out basis. Net realisable value is based on selling price less further costs expected to be incurred to disposal. Provision is made when necessary for obsolete, slow moving and defective stocks.

Deferred taxation

Deferred taxation is provided under the liability method on all timing differences, which are expected to reverse in the future without being replaced, calculated at the rate at which it is estimated the timing differences will reverse.

W. LUNNON & COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 1998

1. Accounting policies (continued)

Pensions

The company participates in the Robert Horne Group Pension Scheme, a group defined benefit scheme, which requires contributions to be made to a separately administered fund. The fund is valued (every three years) by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. Pension costs are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives within the company. The regular cost is attributed to individual years using the projected unit method. Variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees using the mortgage method.

Lease and hire purchase commitments

The rental cost of assets acquired under operating leases are charged on a straight line basis over the lease term. Assets held under hire purchase agreements are capitalised at cost and depreciated over their useful lives. The corresponding obligation under these agreements is shown as a creditor net of finance charges.

Transactions in foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency have been translated into sterling at the exchange rates ruling at 31 December 1998. All differences are taken to profit and loss account.

2. Turnover

Turnover comprises the amount receivable from customers for goods and services supplied excluding value added tax and net of trade discounts. Turnover arises wholly in the United Kingdom and is attributable wholly to the company's continuing activity of paper merchanting.

3. Operating profit	1998	1997
	£000	£000

This is stated after charging:

Auditors' remuneration - audit services	5	6
Operating lease rentals:		
Land and buildings	153	153
Plant and machinery	1	-
Motor vehicles	330	333
Finance lease rentals:		
Motor vehicles	48	21
Depreciation of owned fixed assets	48	61

4. Directors	1998	1997
	£000	£000

Aggregate emoluments	<u>144</u>	<u>141</u>
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Retirement benefits are accruing to three directors under a defined benefit scheme.

W. LUNNON & COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 1998

5. Employees	1998	1997
	Number	Number
The average weekly number of persons (including executive directors) employed during the year was:		
Sales	46	48
Distribution	35	36
Administration	<u>11</u>	<u>10</u>
	<u>92</u>	<u>94</u>
Staff costs amounted to:		
	£000	£000
Wages and salaries	1,859	1,865
Social security costs	149	152
Other pension costs	<u>72</u>	<u>69</u>
	<u>2,080</u>	<u>2,086</u>

6. Pension costs

The company participates in the Robert Horne Group Pension Scheme, a group scheme of the defined benefit type. The assets of the scheme are held in a separate trustee administered fund. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives. The contributions are determined by reference to pension costs across the group as a whole by an independent qualified actuary on the basis of regular valuations using the projected unit method. The most recent valuation was at 1 January 1996. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 8.5% per annum, that salary increases would average 6.5% per annum and that pensions in the course of payment would increase at 3% per annum in accordance with the rules.

The pension charge for the year was £72,000 (1997 £69,000).

The valuation at 1 January 1996 showed that the market value of the scheme's assets at that date amounted to £27,499,000 and that the actuarial value was sufficient to cover 117% of the benefits that had accrued to members, after allowing for the effect of future increases in their earnings. Surpluses arising from valuations are being amortised over a period of 15 years, being the average remaining service life of existing employees.

7. Interest receivable	1998	1997
	£000	£000
Interest receivable from immediate parent undertaking	<u>289</u>	<u>259</u>

W. LUNNON & COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 1998

8.	Interest payable	1998	1997
		£000	£000
	<i>On bank overdrafts and other loans wholly repayable within five years</i>	<u>158</u>	<u>166</u>

9.	Taxation	1998	1997
		£000	£000
	On the profit for the year:		
	Corporation tax at 31% (1997 31.5%)	552	515
	Deferred taxation	<u>(5)</u>	<u>14</u>
		547	529

In respect of previous years:

Corporation tax overprovided	(515)	(7)
Group relief under/(over)provided	514	(2)
Group relief received for no consideration	<u>(514)</u>	<u>-</u>
	32	520

Unless otherwise stated, group relief is paid or received in full to/from other group companies as it arises.

10. Tangible fixed assets

	Freehold property £000	Short leasehold improvements £000	Plant machinery & equipment £000	Motor vehicles £000	Total £000
Cost or valuation:					
At 1.1.98	1,315	101	901	16	2,333
Additions	-	-	10	-	10
Transfer to parent company	<u>(1,315)</u>	<u>(101)</u>	<u>(911)</u>	<u>(16)</u>	<u>(2,343)</u>
At 31.12.98	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Depreciation:					
At 1.1.98	121	97	823	16	1,057
Charge for the year	22	2	24	-	48
Transfer to parent company	<u>(143)</u>	<u>(99)</u>	<u>(847)</u>	<u>(16)</u>	<u>(1,105)</u>
At 31.12.98	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net book value:					
At 31.12.98	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 1.1.98	<u>1,194</u>	<u>4</u>	<u>78</u>	<u>-</u>	<u>1,276</u>

W. LUNNON & COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 1998

10. Tangible fixed assets (continued)

The historical cost of freehold property included at valuation and cumulative depreciation thereon are as follows:

	1998 £000	1997 £000
Cost	—	<u>783</u>
Accumulated depreciation	—	<u>220</u>

All other tangible fixed assets are stated at historical cost.

11. Stocks

	1998 £000	1997 £000
Finished goods and goods for resale	-	1,586
Consumables	<u>-</u>	<u>4</u>
	—	<u>1,590</u>

12. Debtors

	1998 £000	1997 £000
Trade debtors	-	6,539
Other debtors	-	323
Amounts owed by immediate parent undertaking	4,887	3,500
Amount owed by fellow subsidiary undertaking	-	1
Prepayments	-	55
Advance corporation tax	<u>-</u>	<u>225</u>
	<u>4,887</u>	<u>10,643</u>

13. Creditors: amounts falling due within one year

	1998 £000	1997 £000
Bank overdraft (see below)	-	2,532
Trade creditors	-	3,459
Amounts owed to immediate parent undertaking	-	3,652
Amounts owed to fellow subsidiary undertakings	-	3
Accruals	-	66
Corporation tax payable	<u>-</u>	<u>515</u>
	—	<u>10,227</u>

The bank overdraft is secured by a guarantee from fellow subsidiary undertakings and is repayable on demand.

W. LUNNON & COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 1998

14. Deferred taxation	1998 £000	1997 £000
At 1 January	56	42
Profit and loss account	<u>(5)</u>	<u>14</u>
	51	56
Less: advance corporation tax	-	(36)
Transfer to parent company	<u>(51)</u>	<u>-</u>
At 31 December	<u>-</u>	<u>20</u>
Short term timing differences	-	(4)
Accelerated capital allowances	-	60
Advance corporation tax	<u>-</u>	<u>(36)</u>
	<u>-</u>	<u>20</u>

There are no amounts of unprovided deferred taxation at 31 December 1998 or 1 January 1998.

Deferred tax has been calculated at 31 % (1997 31.5%).

15. Other provisions	1998 £000	1997 £000
Relating to obligations in respect of empty property		
At 1 January	14	30
Provided/(released) during year	22	(16)
Transfer to parent company	<u>(36)</u>	<u>-</u>
At 31 December	<u>-</u>	<u>14</u>

16. Share capital	1998 £000	1997 £000
Authorised 2,400,000 ordinary shares of 25p each	<u>600</u>	<u>600</u>
Allotted, called up and fully paid 1,493,782 ordinary shares of 25p each	<u>373</u>	<u>373</u>

17. Reserves	Share premium account £000	Revaluation reserve £000	Capital redemption reserve £000	Profit and loss account £000
At 1.1.98	10	630	127	2,109
Amortisation of revaluation surplus		(10)		10
Retained profit for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,638</u>
At 31.12.98	<u>10</u>	<u>620</u>	<u>127</u>	<u>3,757</u>

W. LUNNON & COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 1998

18.	Reconciliation of movements in shareholders' funds	1998	1997
		£000	£000
	Opening shareholders' funds	3,249	2,185
	Profit attributable to shareholders	<u>1,638</u>	<u>1,064</u>
	Closing shareholders' funds	<u>4,887</u>	<u>3,249</u>
19.	Lease commitments	1998	1997
		£000	£000
	Finance leases		
	Aggregate gross amounts payable:		
	within one year	17	22
	between two and five years	<u>-</u>	<u>17</u>
		<u>17</u>	<u>39</u>
	Operating leases		
	Annual charge in respect of	Land and buildings	Other
	leases terminating:	1998	1997
		£000	£000
	within one year	32	-
	between two and five years	56	111
	beyond five years	<u>34</u>	<u>42</u>
		<u>122</u>	<u>153</u>
		34	18
		225	234
		<u>38</u>	<u>51</u>
		297	303

The leases in respect of land and buildings are subject to periodic rent reviews.

20. Capital commitments

There were no capital commitments at 31 December 1998 or at 31 December 1997.

21. Contingent liabilities

There are contingent liabilities arising in respect of bank guarantees relating to fellow subsidiary undertakings amounting to £6,382,000 at the balance sheet date (1997 £22,878,000).

22. Related party transactions

During the year the company made transactions with other companies connected with the ultimate holding company. In accordance with Financial Reporting Standard 8 the company is exempt from disclosing these transactions in detail as they are disclosed within the financial statements of the ultimate holding company.

No other related party transactions were known to have been made in the year ended 31 December 1998.

W. LUNNON & COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 1998

23. Ultimate parent undertaking

The parent undertaking of the group of undertakings for which group financial statements are drawn up and of which the company is a member is Buhrmann NV (previously known as NV Koninklijke KNP BT), incorporated in The Netherlands.

Copies of the accounts of Buhrmann NV can be obtained from Buhrmann NV, P.O. Box 23456, 1100 DZ Amsterdam ZO, The Netherlands.