

Plasti-Kote Limited

Report and Financial Statements

31 December 2002



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|-----------------|------------|----------|
| RID | *R02X8001* | 0212 |
| COMPANIES HOUSE | | 25/10/03 |
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Plasti-Kote Limited

Registered No: 2013215

Directors

M Watson
R Engh
P Reyelts
M Brandt
W Mansfield

Secretary

St John's Square Secretaries Limited

Auditors

Ernst & Young LLP
Compass House
80 Newmarket Road
Cambridge
CB5 8DZ

Registered office

78 Hatton Garden
London
EC1N 8JA

Directors' report

The directors present their report and financial statements for the year ended 31 December 2002.

Results and dividends

The profit for the year, after taxation, amounted to £521,933. The directors do not recommend the payment of any dividends.

Principal activities and review of the business

The principal activity of the company during the year continued to be the selling and distribution of spray paints.

The directors are pleased with the result for the year and anticipate stable conditions during 2003.

Directors and their interests

The directors at 31 December 2002 and their interests in the share capital of the parent company were as follows:

| | <i>At 31 December 2002 Ordinary shares</i> | <i>At 1 January 2002 Ordinary shares</i> |
|------------------------------------|----------------------------------------------------|--------------------------------------------------|
| M Watson | 25 | 25 |
| SH McCarthy (resigned 16 May 2003) | 50 | 50 |
| R Engh | — | — |
| P Reyelts | — | — |
| M Brandt | — | — |
| W Mansfield | — | — |

Donations

During the year, the company made charitable donations totalling £317.

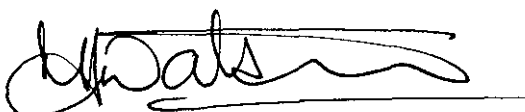
Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the board

M Watson

Director



16 July 2003

Statement of directors' responsibilities in respect of the financial statements

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 year. 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; 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 to 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.

Independent auditors' report

to the members of Plasti-Kote Limited

We have audited the company's financial statements for the year ended 31 December 2002 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Statement of Cash Flows and the related notes 1 to 19. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and 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 United Kingdom law and 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.

Independent auditors' report
to the members of Plasti-Kote Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
Cambridge

16 July 2003


Profit and loss account

for the year ended 31 December 2002

| | Notes | 2002 £ | 2001 (restated) £ |
|------------------------------------------------------|-------|-----------|-------------------------|
| Turnover | 2 | 8,705,090 | 9,030,782 |
| Cost of sales | | 4,627,222 | 4,626,601 |
| Gross profit | | 4,077,868 | 4,404,181 |
| Distribution costs | | 2,818,685 | 3,104,492 |
| Administrative expenses | | 566,626 | 502,429 |
| Operating profit | 3 | 692,557 | 797,260 |
| Interest receivable | 6 | 74,214 | 85,414 |
| Profit on ordinary activities before taxation | | 766,771 | 882,674 |
| Tax on profit on ordinary activities | 7 | 244,838 | 267,903 |
| Profit retained for the financial year | | 521,933 | 614,771 |

Statement of total recognised gains and losses
for the year ended 31 December 2002

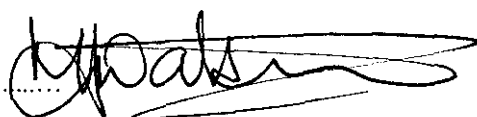
| | 2002 | 2001 (restated) |
|----------------------------------------------------------------|------------------|--------------------|
| | £ | £ |
| Profit for the financial year | 521,933 | 614,771 |
| Total recognised gains and losses relating to the year | <u>521,933</u> | <u>614,771</u> |
| Prior year adjustment (see note 8) | <u>(101,330)</u> | |
| Total gains and losses recognised since the last annual report | <u>420,603</u> | |

Balance sheet

at 31 December 2002

| | Notes | 2002 £ | 2001 (restated) £ |
|-------------------------------------------------------|-------|-----------|-------------------------|
| Fixed assets | | | |
| Tangible assets | 9 | 122,004 | 135,203 |
| Current assets | | | |
| Stocks | 10 | 990,829 | 830,845 |
| Debtors | 11 | 1,607,743 | 1,890,090 |
| Cash at bank | | 2,917,063 | 2,432,025 |
| | | 5,515,635 | 5,152,960 |
| Creditors: amounts falling due within one year | 12 | 1,394,604 | 1,567,061 |
| Net current assets | | 4,121,031 | 3,585,899 |
| Total assets less current liabilities | | 4,243,035 | 3,721,102 |
| Capital and reserves | | | |
| Called up share capital | 16 | 500 | 500 |
| Profit and loss account | 17 | 4,242,535 | 3,720,602 |
| Equity shareholders' funds | 17 | 4,243,035 | 3,721,102 |

M Watson
Director



16 July 2003

Statement of cash flows

for the year ended 31 December 2002

| | Notes | 2002 £ | 2001 £ |
|--------------------------------------------------------|--------|----------------|----------------|
| <i>Net cash inflow from operating activities</i> | 18 (a) | 805,325 | 636,399 |
| <i>Returns on investments and servicing of finance</i> | 18 (b) | 74,214 | 85,414 |
| <i>Taxation</i> | 18 (c) | (333,649) | (229,964) |
| <i>Capital expenditure and financial investment</i> | 18 (d) | (60,852) | (58,518) |
| <i>Increase in cash</i> | | <u>485,038</u> | <u>433,331</u> |

Reconciliation of net cash flow to movement in net funds

| | | 2002 £ | 2001 £ |
|--------------------------|--------|------------------|------------------|
| Increase in cash | | 485,038 | 433,331 |
| Movement in net funds | | 485,038 | 433,331 |
| Net funds at 1 January | 18 (e) | 2,432,025 | 1,998,694 |
| Net funds at 31 December | 18 (e) | <u>2,917,063</u> | <u>2,432,025</u> |

Notes to the financial statements

at 31 December 2002

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention, and in accordance with applicable accounting standards.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Leasehold improvements - over the lease term

Motor vehicles - 3 years

Computer equipment - 3 to 4 years

Office furniture - 4 years

Office equipment - 3 years

Warehouse equipment - 3 to 5 years

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Deferred taxation

FRS 19 "Deferred Tax" has been implemented during the year. The effect of implementing the standard has been shown as a prior year adjustment in the accounts (see note 8).

In accordance with FRS 19, Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception:

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Operating lease agreements

Rentals payable under operating leases are charged in the Profit and Loss Account on a straight line basis over the lease term.

Notes to the financial statements

at 31 December 2002

1. Accounting policies (continued)

Pension costs

The company operates a defined contribution pension scheme. Contributions are charged in the Profit and Loss Account as they become payable in accordance with the rules of the scheme.

2. Turnover

Turnover, which excludes value added tax, represents the invoiced value of goods sold and services supplied. Turnover is attributable to one continuing activity, the selling and distribution of spray paints.

An analysis of turnover by geographical market is given below:

| | 2002 £ | 2001 £ |
|-------------------|------------------|------------------|
| United Kingdom | 7,345,109 | 7,452,394 |
| Rest of Europe | 1,351,225 | 1,486,930 |
| Rest of the world | 8,756 | 91,458 |
| | <u>8,705,090</u> | <u>9,030,782</u> |

3. Operating profit

This is stated after charging:

| | 2002 £ | 2001 £ |
|----------------------------------------------|---------------|---------------|
| Auditors' remuneration - audit services | 9,500 | 18,000 |
| - non-audit services | 9,655 | 7,440 |
| | <u>19,155</u> | <u>25,440</u> |
| Depreciation of owned fixed assets | <u>74,051</u> | <u>76,180</u> |
| Operating lease rentals - land and buildings | 104,255 | 95,044 |
| - plant and machinery | <u>48,280</u> | <u>53,199</u> |

Notes to the financial statements

at 31 December 2002

4. Staff costs

| | 2002 £ | 2001 £ |
|-----------------------|----------------|----------------|
| Wages and salaries | 779,482 | 762,533 |
| Social security costs | 81,636 | 71,365 |
| Pensions costs | 37,173 | 16,422 |
| | <u>898,291</u> | <u>850,320</u> |

The monthly average number of employees during the year was as follows:

| | 2002 No. | 2001 No. |
|----------------------|-------------|-------------|
| Production staff | 16 | 16 |
| Administrative staff | 10 | 10 |
| | <u>26</u> | <u>26</u> |

5. Directors' emoluments

| | 2002 £ | 2001 £ |
|------------------------------------------------------------------|----------------|----------------|
| Emoluments | <u>312,200</u> | <u>331,572</u> |
| Value of company pension contributions to money purchase schemes | <u>27,340</u> | <u>34,294</u> |

| | 2002 No. | 2001 No. |
|-------------------------------------------|-------------|-------------|
| Members of money purchase pension schemes | <u>2</u> | <u>2</u> |

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

| | 2002 £ | 2001 £ |
|------------------------------------------------------------------|----------------|----------------|
| Emoluments | <u>161,442</u> | <u>171,328</u> |
| Value of company pension contributions to money purchase schemes | <u>14,180</u> | <u>19,173</u> |

Notes to the financial statements

at 31 December 2002

6. Interest receivable

| | 2002 £ | 2001 £ |
|-------------------------------|---------------|---------------|
| Bank interest receivable | 32,826 | 76,053 |
| Interest from group companies | 41,388 | 9,361 |
| | <u>74,214</u> | <u>85,414</u> |

7. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

| | 2002 £ | 2001 (restated) £ |
|------------------------------------------------|----------------|-------------------------|
| <i>Current tax:</i> | | |
| UK corporation tax | 229,839 | 275,161 |
| Tax under/(over) provided in previous years | 49 | (6,056) |
| Total current tax (note 7(b)) | <u>229,888</u> | <u>269,105</u> |
| <i>Deferred tax:</i> | | |
| Origination and reversal of timing differences | 14,950 | (1,202) |
| Tax on profit on ordinary activities | <u>244,838</u> | <u>267,903</u> |

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2001 - 30%). The differences are reconciled below:

| | 2002 £ | 2001 (restated) £ |
|----------------------------------------------------------------------------------|----------------|-------------------------|
| Profit on ordinary activities before taxation | <u>766,771</u> | <u>882,674</u> |
| Profit on ordinary activities multiplied by the standard rate of corporation tax | 230,032 | 264,802 |
| Disallowed expenses and non-taxable income | 9,450 | 9,180 |
| Depreciation in excess of capital allowances | 7,256 | 7,366 |
| Other timing differences | (16,899) | (6,187) |
| Adjustments in respect of prior periods | 49 | (6,056) |
| Total current tax (note 7(a)) | <u>229,888</u> | <u>269,105</u> |

Notes to the financial statements

at 31 December 2002

7. Tax (continued)

(c) Deferred tax

All deferred tax is recognised.

| | 2002 | 2001 (restated) |
|----------------------------------------------------------|---------------|--------------------|
| | £ | £ |
| Depreciation in advance of capital allowances | 19,690 | 12,473 |
| Other timing differences | 5,986 | 28,153 |
| Deferred taxation asset recognised | <u>25,676</u> | <u>40,626</u> |
| | | £ |
| At 1 January 2002 | | 40,626 |
| Profit and Loss Account movement arising during the year | | (14,950) |
| At 31 December 2002 | | <u>25,676</u> |

8. Prior year adjustment

The prior year adjustment is made up of two elements:

- A charge of £141,956 (net of a tax credit of £60,839) in the year ended 31 December 2001 in respect of previously recognised debit notes from customers which are no longer considered valid.
- An adjustment of £40,626 in respect of a deferred tax asset recognised on implementation of FRS 19. Of this an adjustment of £39,424 has been recognised in brought forward reserves at 1 January 2001 and £1,202 has been credited to the tax charge in the year ended 31 December 2001.

Notes to the financial statements

at 31 December 2002

9. Tangible fixed assets

| | <i>Leasehold Improvements</i> | <i>Computer equipment</i> | <i>Office furniture and equipment</i> | <i>Motor vehicles</i> | <i>Warehouse equipment</i> | <i>Total</i> |
|--------------------------|-----------------------------------|-------------------------------|---------------------------------------------------|---------------------------|--------------------------------|--------------|
| | £ | £ | £ | £ | £ | £ |
| Cost: | | | | | | |
| At 1 Jan 2002 | 49,595 | 182,656 | 26,592 | 29,660 | 119,292 | 407,795 |
| Additions | – | 10,491 | 17,482 | 34,250 | – | 62,223 |
| Disposals | – | (1,899) | – | – | – | (1,899) |
| At 31 Dec 2002 | 49,595 | 191,248 | 44,074 | 63,910 | 119,292 | 468,119 |
| Depreciation: | | | | | | |
| At 1 Jan 2002 | 26,708 | 119,535 | 21,394 | 5,767 | 99,188 | 272,592 |
| Provided during the year | 9,481 | 37,307 | 5,701 | 10,838 | 10,724 | 74,051 |
| Disposals | – | (528) | – | – | – | (528) |
| At 31 Dec 2002 | 36,189 | 156,314 | 27,095 | 16,605 | 109,912 | 346,115 |
| Net book value: | | | | | | |
| At 31 Dec 2002 | 13,406 | 34,934 | 16,979 | 47,305 | 9,380 | 122,004 |
| At 1 Jan 2002 | 22,887 | 63,121 | 5,198 | 23,893 | 20,104 | 135,203 |

10. Stocks

| | 2002 | 2001 |
|------------------|---------|---------|
| | £ | £ |
| Finished goods | 729,290 | 725,662 |
| Goods in transit | 261,539 | 105,183 |
| | 990,829 | 830,845 |

11. Debtors

| | 2002 | 2001 |
|--------------------------------|-----------|-----------------|
| | £ | (restated) £ |
| Trade debtors | 1,514,990 | 1,813,023 |
| Prepayments and accrued income | 67,077 | 36,441 |
| Deferred taxation (note 7) | 25,676 | 40,626 |
| | 1,607,743 | 1,890,090 |

Notes to the financial statements

at 31 December 2002

12. Creditors: amounts falling due within one year

| | 2002 | 2001 (restated) |
|------------------------------------------|------------------|--------------------|
| | £ | £ |
| Trade creditors | 338,006 | 213,691 |
| Amounts owed to group undertakings | 515,857 | 569,330 |
| Corporation tax | 89,075 | 192,836 |
| Other taxation and social security costs | 142,224 | 159,487 |
| Other creditors | 5,916 | 2,861 |
| Accruals and deferred income | 303,526 | 428,856 |
| | <u>1,394,604</u> | <u>1,567,061</u> |

13. Pensions

The company operates a defined contribution pension scheme for its directors. The assets of the scheme are held separately from those of the company in an independently administered fund. Unpaid contributions outstanding at the year end were £1,739 (2001: £14,500).

14. Commitments under operating leases

At 31 December 2002 the company had annual commitments under non-cancellable operating leases as set out below.

| | 2002 | | 2001 | |
|--------------------------------|----------------------------|---------------|----------------------------|---------------|
| | Land and buildings £ | Other £ | Land and buildings £ | Other £ |
| Operating leases which expire: | | | | |
| Within one year | — | 17,117 | — | 2,503 |
| In two to five years | 141,000 | 25,690 | 91,300 | 39,910 |
| | <u>141,000</u> | <u>42,807</u> | <u>91,300</u> | <u>42,413</u> |

15. Related party transactions

During the year, the company purchased goods in the normal course of business from Plasti-Kote Co. Inc., its parent undertaking for £3,053,411 (2001: £2,982,819).

Also during the year the company charged Plasti-Kote Co. Inc. £nil (2001: £15,038) relating to expenses incurred. At the balance sheet date the amount due to Plasti-Kote Co. Inc. was £515,857 (2001: £569,330).

16. Share capital

| | 2002 | | <i>Authorised</i> 2001 | |
|----------------------------|-------------------------------------------|------------|---------------------------|------------|
| | £ | | £ | |
| Ordinary shares of £1 each | <u>1,000</u> | | <u>1,000</u> | |
| | | | | |
| | <i>Allotted, called up and fully paid</i> | | | |
| | 2002 | | 2001 | |
| | <i>No.</i> | £ | <i>No.</i> | £ |
| Ordinary shares of £1 each | 500 | <u>500</u> | 500 | <u>500</u> |

Notes to the financial statements

at 31 December 2002

17. Reconciliation of shareholders' funds and movement on reserves

| | <i>Share capital</i> | <i>Profit and loss account (restated)</i> | <i>Total share- holders' funds (restated)</i> |
|--------------------------------------|----------------------|---------------------------------------------------|-------------------------------------------------------|
| | £ | £ | £ |
| At 1 January 2001 | 500 | 3,105,831 | 3,106,331 |
| Profit for the year | — | 614,771 | 614,771 |
| Restated balance at 31 December 2001 | 500 | 3,720,602 | 3,721,102 |
| Profit for the year | — | 521,933 | 521,933 |
| At 31 December 2002 | 500 | 4,242,535 | 4,243,035 |

18. Notes to the statement of cash flows

(a) Reconciliation of operating profit to net cash inflow from operating activities

| | <i>2002</i> | <i>2001 (restated)</i> |
|-------------------------------------------|-------------|----------------------------|
| | £ | £ |
| Operating profit | 692,557 | 797,260 |
| Depreciation | 74,051 | 76,180 |
| Increase in stocks | (159,984) | (187,013) |
| Decrease/(increase) in debtors | 267,397 | (244,765) |
| (Decrease)/increase in creditors | (68,696) | 194,737 |
| Net cash inflow from operating activities | 805,325 | 636,399 |

(b) Returns on investments and servicing of finance

| | <i>2002</i> | <i>2001</i> |
|-----------------------------|-------------|-------------|
| | £ | £ |
| Income from group companies | 41,388 | 9,361 |
| Interest received | 32,826 | 76,053 |
| | 74,214 | 85,414 |

(c) Taxation

| | <i>2002</i> | <i>2001</i> |
|----------------------|-------------|-------------|
| | £ | £ |
| Corporation tax paid | (333,649) | (229,964) |

Notes to the financial statements

at 31 December 2002

(d) Capital expenditure

| | 2002 £ | 2001 £ |
|----------------------------------------------|-----------------|-----------------|
| Payments to acquire tangible fixed assets | (62,223) | (58,518) |
| Receipts from sales of tangible fixed assets | 1,371 | - |
| | <u>(60,852)</u> | <u>(58,518)</u> |

(e) Analysis of changes in net funds

| | At 1 January 2002 £ | Cash flows £ | At 31 December 2002 £ |
|--------------------------|------------------------------|-----------------|--------------------------------|
| Cash at bank and in hand | 2,432,025 | 485,038 | 2,917,063 |
| | <u>2,432,025</u> | <u>485,038</u> | <u>2,917,063</u> |

19. Ultimate parent company

The company's immediate parent undertaking is Plasti-Kote Co Inc., which is incorporated in the United States of America.

In the directors' opinion, the company's ultimate parent undertaking and controlling party is Valspar Corporation, which is incorporated in the United States of America. Copies of its group accounts, which include the company, are available from 1101 South Third Street, Minneapolis, MN55 415, USA.