

**Natuzzi United Kingdom Limited**  
*(formerly Castlegate 170 Limited)*

**Directors' report and financial  
statements**

Registered number 4085911  
31 December 2003



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## Directors' report

The directors present their report and audited financial statements for the 18 month period ended 31 December 2003.

### Principal activity and review of business

The company acts as the holding company of Esmeralda Holdings Limited. Esmeralda Holdings Limited (trading as La Galleria) sells a wide range of home furnishings and is the holding company of Kingdom of Leather Limited. Kingdom of Leather Limited primarily sells upholstered leather furniture on a made to order basis.

On 7 May 2003, the company was wholly acquired by Natuzzi S.p.A, the world's largest manufacturer of leather upholstered furniture. Due to this acquisition, the Company has and will undergo many changes as it becomes assimilated into the Natuzzi S.p.A group and Natuzzi S.p.A defines its distribution strategy within the UK market.

On 10 May 2004 the company changed its name from Castlegate 170 Limited to Natuzzi United Kingdom Limited.

The main effects of the acquisition will be on Kingdom of Leather Limited where the product range has been realigned and certain stores have been identified to be refurbished and re-branded to trade as Natuzzi.

The financial statements have been prepared on the going concern basis which the directors believe to be appropriate for the following reason. The company is reliant on funds provided to it by its ultimate parent undertaking, Natuzzi S.p.A which has provided the company with an undertaking that it will, for at least 12 months from the date of the approval of these financial statements, continue to make available such funds as are needed by the company.

### Results and dividends

The loss for the period, after taxation amounted to £2,060,000 (30 June 2002: £nil).

The directors do not recommend the payment of an ordinary dividend (30 June 2002: £nil).

### Directors and their interests

The directors who held office during the periods and since the period end were as follows:

	Ordinary shares	
	31 December 2003	30 June 2002
M Baumgart (resigned 5 June 2002)	-	50,000
J Silverstone (resigned 28 June 2002)	-	3,700
P Dickson (resigned 19 March 2003)	-	-
C Wall (resigned 7 May 2003)	-	-
HS Winetroube (appointed 1 July 2002; resigned 30 September 2003)	-	-
S Adams (resigned 18 February 2004)	-	-
C Grierson (appointed 11 September 2002; resigned 31 May 2004)	-	-
A Bracalello (appointed 7 May 2003)	-	-
DC Riches (appointed 2 February 2004)	-	-
GR Greenbaum (appointed 3 March 2004; resigned 26 July 2004)	-	-
SL Finlay (appointed 10 May 2004)	-	-

## Directors' report (continued)

### Directors and their interests (continued)

J Silverstone's shares were sold on 1 October 2002 to the executive directors. On 20 December 2002, the company issued 14,891 new ordinary shares to executive directors. On 23 December 2002, M Baumgart's shares were sold to an Employee Benefit Trust (EBT) with 39,000 then sold to the executive directors and 11,000 remaining within the EBT. On 15 April 2003 23,037 shares were re-purchased by the EBT from P Dickson.

On the acquisition of the company by Natuzzi S.p.A on 7 May 2003, all remaining shares held by directors were acquired by Natuzzi S.p.A. The 34,037 shares held by the EBT remain with the EBT and are recorded in the balance sheet of the company. The directors plan to sell these shares to Natuzzi S.p.A.

As described above, the executive directors of the company acquired and sold ordinary shares of £1 each during the period as follows:

	Ordinary shares of £1 each
P Dickson	23,037
HS Winetroube	11,518
S Adams	11,518
C Grierson	11,518

### Auditors

KPMG were appointed as auditors of the company on 26 November 2003.

A resolution for the appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



SL Finlay  
Director

Lakeside Retail Park  
West Thurrock  
Essex  
RM20 3ZB

21 September 2004

## Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss 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;
- 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



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United Kingdom

## **Report of the independent auditors to the members of Natuzzi United Kingdom Limited**

We have audited the financial statements on pages 5 to 13.

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 auditor's 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**

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements 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.

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.

### **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 affairs of the company as at 31 December 2003 and of the loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG LLP*  
**KPMG LLP**  
Chartered Accountants  
Registered Auditor

*30 September* 2004

## Profit and loss account

for the 18 month period ended 31 December 2003

	<i>Note</i>	<b>18 month period ended 31 December 2003 £'000</b>	<b>Year ended 30 June 2002 £'000</b>
Administrative expenses		(30)	-
Provision for impairment of investments	7	(1,975)	-
<b>Operating loss</b>		<b>(2,005)</b>	
Loss on disposal of investments	7	(55)	-
<b>Loss on ordinary activities before taxation</b>	2	<b>(2,060)</b>	-
Tax on loss on ordinary activities	5	-	-
<b>Loss on ordinary activities after taxation – equity</b>		<b>(2,060)</b>	-
Finance cost of non-equity shares	6	(408)	(5)
<b>Loss for the financial period</b>		<b>(2,468)</b>	<b>(5)</b>

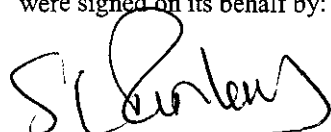
There are no recognised gains and losses other than the loss of £2,060,000 (30 June 2002: £5,000).

All of the results arose from continuing activities.

**Balance sheet**  
 at 31 December 2003

	Note	2003 £000	2002 £000
<b>Fixed assets</b>			
Investments	7	3,034	4,960
<b>Current assets</b>			
Debtors	8	3,881	51
<b>Creditors:</b> amounts falling due within one year	9	(4,000)	(52)
<b>Net current liabilities</b>		(119)	(1)
		<u>2,915</u>	<u>4,959</u>
<b>Capital and reserves</b>			
Called up share capital	10	3,534	3,518
Share premium	11	1,446	1,446
Profit and loss account	11	(2,065)	(5)
<b>Shareholders' (deficit)/funds</b>			
Equity		(1,747)	-
Non-equity		<u>4,662</u>	<u>4,959</u>
	12	<u>2,915</u>	<u>4,959</u>

These financial statements were approved by the board of directors on 21st SEPTEMBER 2004 and were signed on its behalf by:



SL Finlay  
 Director

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements except as noted below. The company has adopted FRS 18 'Accounting policies' and FRS 19 'Deferred tax' in these financial statements with no impact.

#### ***Basis of preparation***

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated accounts.

As 100% of the company's voting rights are controlled within the group headed by Natuzzi S.p.A., a company incorporated in Italy, the company has taken advantage of the exemption contained in FRS 8 and has therefore not included disclosure of transactions or balances which form part of the group. The consolidated financial statements of Natuzzi S.p.A., within which this company is included, can be obtained from the address given in note 14.

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £119,000 which the directors believe to be appropriate for the following reason. The company is reliant on funds provided to it by its ultimate parent undertaking, Natuzzi S.p.A which has provided the company with an undertaking that it will, for at least 12 months from the date of the approval of these financial statements, continue to make available such funds as are needed by the company. This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

#### ***Fixed asset investments***

The carrying value of investments is reviewed for impairment in periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

#### ***Taxation***

The charge for taxation is based on the loss/profit for the period and takes into account taxation deferred because of timing differences. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

## Notes (continued)

### 2 Loss on ordinary activities before taxation

The auditors fee was paid by another group company.

### 3 Remuneration of directors

	Period ended 31 December 2003 £000	Year ended 30 June 2002 £000
Directors' emoluments	26	-
Emoluments to the highest paid director: Emoluments	9	-

The emoluments shown above relate to amounts owed by the directors to the Kingdom of Leather Employee Benefit Trust as consideration for shares in the company. These amounts were written off when the company was purchased by Natuzzi S.p.A on 7 May 2003.

### 4 Staff numbers and costs

The company had no employees other than the directors during the period. The directors' salaries were paid by another group company.

### 5 Taxation

Analysis of charge in period

	Period ended 31 December 2003 £000	Year ended 30 June 2002 £000
UK corporation tax	-	-
Deferred tax	-	-
Tax on profit on ordinary activities	-	-

## Notes (continued)

### 5 Taxation (continued)

#### *Factors affecting the tax charge for the current period*

The current tax credit for the period is lower than the standard rate of corporation tax in the UK (30 %). The differences are explained below.

	Period ended 31 December 2003 £000	Year ended 31 December 2002 £000
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(2,060)	-
	<hr/>	<hr/>
Current tax at 30% (2002 : 30%)	618	-
<i>Effects of:</i>		
Expenses not deductible for tax purposes (primarily provision for impairment of investments)	(609)	-
Carry forward of tax losses	(9)	-
	<hr/>	<hr/>
Total current tax (see above)	-	-
	<hr/>	<hr/>

### 6 Finance costs of non-equity shares

	Period ended 31 December 2003 £000	Year ended 30 June 2002 £000
8% preference shares	402	-
3.907% preferred ordinary shares	6	5
	<hr/>	<hr/>
	408	5
	<hr/>	<hr/>

## Notes (continued)

### 7 Investments

	Investment in subsidiary undertakings £000	Investment in own shares £000	Total £000
<b>Cost</b>			
At 30 June 2002	4,960	-	4,960
Additions	-	143	143
Disposals	-	(94)	(94)
	<hr/>	<hr/>	<hr/>
At 31 December 2003	4,960	49	5,009
	<hr/>	<hr/>	<hr/>
<b>Provision for impairment</b>			
At 30 June 2002	-	-	-
Provision established in the period	(1,960)	(15)	(1,975)
	<hr/>	<hr/>	<hr/>
At 31 December 2003	(1,960)	(15)	(1,975)
	<hr/>	<hr/>	<hr/>
<b>Net book value</b>			
At 31 December 2003	3,000	34	3,034
	<hr/>	<hr/>	<hr/>
At 30 June 2002	4,960	-	4,960
	<hr/>	<hr/>	<hr/>

The company holds 100% of the ordinary shares of Esmeralda Holdings Limited, which is a retailer of a wide range of household furnishing and the parent company of Kingdom of Leather Limited, a retailer of leather upholstered furniture. During the period the company performed a review of the carrying value of its investments in the light of the recent results of its subsidiary companies and determined that a provision for impairment of £1,975,000 was required in order to reduce the carrying value of the investments to their estimated recoverable amounts.

The company also controls the Kingdom of Leather Employee Benefit Trust which holds shares in the company on behalf of employees.

### 8 Debtors

	Period ended 31 December 2003 £000	Year ended 30 June 2002 £000
Other debtors	1	-
Amounts due from subsidiary undertakings	3,880	51
	<hr/>	<hr/>
	3,881	51
	<hr/>	<hr/>

## Notes (continued)

### 9 Creditors: amounts falling due within one year

	Period ended 31 December 2003 £000	Year ended 30 June 2002 £000
Amounts owed to parent company	4,000	52
	<u>4,000</u>	<u>52</u>

### 10 Called up share capital

	Period ended 31 December 2003 £	Year ended 30 June 2002 £
<b>Authorised</b>		
76,655 ordinary shares of £1 each	76,655	76,655
108,986 3.907% convertible cumulative preferred ordinary shares of £1 each	108,986	108,986
3,596,774 8% cumulative redeemable preference shares of £1 each	3,596,774	3,596,774
2 deferred shares of £1 each	2	2
80,596 preferred ordinary shares of £0.01 each	806	-
	<u>3,783,223</u>	<u>3,782,417</u>
	£000	£000
<b>Allotted, called up and fully paid</b>		
76,655 Ordinary shares of £1 each (2002: 61,764 ordinary shares of £1 each)	77	62
108,986 3.907% convertible cumulative preferred ordinary shares of £1 each	109	109
3,346,774 8% cumulative redeemable preference shares of £1 each	3,347	3,347
80,596 preferred ordinary shares of £0.01 each	1	-
	<u>3,534</u>	<u>3,518</u>

#### **Convertible cumulative preferred ordinary shares**

The convertible cumulative preferred ordinary shares are convertible at the option of the holders, in the event of a change of control or certain other events, into ordinary shares on the basis of one ordinary share for one convertible cumulative preferred ordinary share. They carry the right to a dividend of 3.907% per annum payable half yearly in arrears on 30 June and 31 December. The shareholders are also entitled to a variable cumulative participating dividend of 12% of the group's adjusted profits as set out in the Articles of Association in respect of each financial year of the company ending on or after 30 June 2001.

The convertible cumulative preferred ordinary shares carry one vote per share. On a winding up of the company the holders of these shares have a right to receive, in preference to ordinary shareholders, £1 per share plus any accrued dividend.

## Notes (continued)

### 10 Called up share capital (*continued*)

The payment of current outstanding dividends, and dividends due in June and December 2004, have been deferred until 30 June 2007.

The preferred ordinary shares of £0.01 each issued during the period rank pari passu with the existing preferred ordinary shares.

#### *Cumulative redeemable preference shares*

The cumulative redeemable preference shares carry the right to a dividend of 8% per annum payable half yearly in arrears on 30 June and 31 December. The repayments were structured as follows:

	Number of shares
30 June 2002	750,000
30 June 2003	750,000
30 June 2004	596,774
30 June 2005	750,000
30 June 2006	500,000

The preference share redemptions due at 30 June 2002, 2003 and 2004 have been deferred until 30 June 2007. The payment of current outstanding dividends including dividends due in June and December 2004, have also been deferred until 30 June 2007.

The cumulative redeemable preference shares are redeemable at their paid up value at the option of the company at any time. On a winding up of the company the holders of the cumulative redeemable preference shares have a right to receive, in preference to the ordinary shareholders, £1.00 per share plus any accrued dividend.

The cumulative redeemable preference shares carry no votes at meetings unless the dividends thereon or redemption thereof is six months or more in arrears, or on the occurrence of certain other events. In these events each holder will be entitled to vote for each cumulative redeemable preference share held.

No dividends can be declared or paid on the ordinary shares or further dividends on the preferred ordinary shares without the consent of the preference shareholders or until all the preference shares have been redeemed.

After the redemption of the preference shares, the ordinary shares shall have the right to receive dividends equal to the amount of the preferred dividend and participating dividend on each preferred ordinary share.

#### *Deferred shares*

The deferred shares have no right to a dividend or to participate in the profits of the company, except on a sale, winding up of the company or other return of capital where the holders of the deferred shares are entitled to £455,968.

### 11 Share premium and reserves

	Share premium account £000	Profit and loss account £000
At the beginning of the period	1,446	(5)
Loss for the period	-	(2,060)
	<hr/>	<hr/>
At the end of the period	1,446	(2,065)
	<hr/>	<hr/>

**Notes (continued)**

**12 Reconciliation of movement in shareholders' funds**

	2003 £000	2002 £000
Opening balance	4,959	4,964
Loss for the financial period	(2,060)	-
Finance cost of non-equity shares	(408)	(5)
Unpaid non-equity dividend	408	-
Issue of shares	16	-
	<hr/>	<hr/>
Shareholders' funds carried forward	2,915	4,959
	<hr/>	<hr/>
Shareholders' funds are analysed as follows:		
	2003 £000	2002 £000
Equity interests	(1,747)	-
Non-equity interests:		
Preferred ordinary shares	646	1,612
Preference shares	4,016	3,347
	<hr/>	<hr/>
	2,915	4,959
	<hr/>	<hr/>

**13 Post balance sheet events**

The company changed its name to Natuzzi United Kingdom Limited on 10 May 2004.

**14 Ultimate parent company and parent undertaking of larger group of which the company is a member**

The immediate parent undertaking of the Company is Natuzzi S.p.A which is incorporated in Italy and listed on the NYSE.

The largest group in which the results of the company are consolidated is that headed by Natuzzi S.p.A. The consolidated financial statements of Natuzzi S.p.A are available from Natuzzi S.p.A, Via Iazzitiello 47, 70029 Santeramo in Colle (BA), Italy.