

HOMAG U.K. LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2002



Company no 1150111

HOMAG U.K. LIMITED

FINANCIAL STATEMENTS

For the year ended 31 December 2002

Company registration number: 1150111

Registered office: Unit 10c
Sills Road
Willow Farm Business Park
Castle Donington
Derby
DE74 2US

Directors: P Cooper
T Frey
P Newman
F Rodriguez

Secretary: T Frey

Auditors: Grant Thornton
Registered Auditors
Chartered Accountants
Churchill House
Chalvey Road East
Slough
Berkshire
SL1 2LS

HOMAG U.K. LIMITED

FINANCIAL STATEMENTS

For the year ended 31 December 2002

INDEX	PAGE
Report of the directors	1 - 2
Report of the independent auditors	3
Principal accounting policies	4 - 5
<i>Profit and loss account</i>	6
Balance sheet	7
Notes to the financial statements	8 - 13

HOMAG U.K. LIMITED

REPORT OF THE DIRECTORS

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

Principal activities

The company is principally engaged in buying, selling and repairing woodworking machinery.

Business review

The directors were disappointed with the results for the year but look forward to an increased level of activity and profitability during 2003.

There was a loss for the year after taxation amounting to £791,701 (2001: profit £138,916). The directors are not able to recommend the payment of a dividend.

Directors

The present membership of the Board is set out below.

The interests of the directors and their families in the shares of the company as at 31 December 2002 and 1 January 2002, or the date of their appointment to the Board if later, were as follows:

	Ordinary shares		Preference shares	
	31 December 2002	1 January 2000	31 December 2002	1 January 2000
P Cooper (appointed 8 September 2003)	-	-	-	-
T Frey (appointed 27 June 2003)	-	-	-	-
P Newman	-	-	-	-
F Rodriguez	-	-	-	-
K Wilkins (resigned 2 September 2003)	-	-	-	-

No director had, during or at the end of the year, any material interest in a contract which was significant in relation to the company's business.

No rights exist for any of the directors to subscribe for shares in the company.

During the year certain freehold properties were revalued and the revised values incorporated in the financial statements. The deficit of £105,983 arising from the revaluations has been transferred to reserves.

Charitable contributions

Donations to charitable organisations amounted to £4,493 (2001: £465).

HOMAG U.K. LIMITED

REPORT OF THE DIRECTORS

Directors' responsibilities for the financial statements

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- 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 maintaining proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ON BEHALF OF THE BOARD

 22.01.2004

T Frey
Director

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF HOMAG U.K. LIMITED

We have audited the financial statements of Homag UK Limited for the year ended 31 December 2001 which comprise the profit and loss account, the balance sheet, the principal accounting policies and notes 1 to 20. These financial statements have been prepared under 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

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the directors' report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 as at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
LONDON THAMES VALLEY OFFICE
SLOUGH**

23 Jan 2004

HOMAG U.K. LIMITED

PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention except that certain freehold properties are shown at their revalued amounts.

The principal accounting policies of the company have remained unchanged from the previous year except for the adoption of Financial Reporting Standard 19 'Deferred Tax' and are set out below.

TURNOVER

Turnover is the total amount receivable by the company for goods supplied and services provided, excluding VAT and trade discounts. Sales are recorded at the later of the delivery date and the invoice.

In the case of long term contracts, turnover reflects the contract activity during the year and represents the proportion of total contract value which costs incurred to date bear to total expected costs.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Depreciation is calculated to write down the cost or valuation less estimated residual value of all tangible fixed assets other than freehold land by equal annual instalments over their expected useful lives. The rates generally applicable are:

Freehold buildings	2%
Office and computer equipment	10% - 20%
Motor vehicles	20%

STOCKS

Stocks are stated at the lower of cost and net realisable value.

Cost comprises purchase price, transport and handling costs, less trade discounts and is calculated on a first in first out basis.

Net realisable value means estimated selling price (less trade discounts) less all further costs to completion and all costs to be incurred in marketing, selling and distribution.

DEFERRED TAXATION

Deferred tax is recognised on all timing differences where the transactions or events that give the company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

In prior years, deferred tax was provided for using the tax rates estimated to arise when the timing differences reverse and was accounted for to the extent that it is probable that a liability or asset will crystallise. Unprovided deferred tax was disclosed as a contingent liability.

FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. All other exchange differences are dealt with through the profit and loss account.

HOMAG U.K. LIMITED

PRINCIPAL ACCOUNTING POLICIES

CONTRIBUTIONS TO PENSION FUNDS

Defined contribution scheme

The pension costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

LEASED ASSETS

All leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight-line basis over the lease term.

LONG-TERM CONTRACTS

The attributable profit on long-term contracts is recognised once their outcome can be assessed with reasonable certainty. The profit recognised reflects the proportion of work completed to date on the project.

Full provision is made for losses on all contracts in the year in which the loss is first foreseen.

HOMAG U.K. LIMITED**PROFIT AND LOSS ACCOUNT**

For the year ended 31 December 2002

	Note	2002 £	2001 £
Turnover	1	14,327,937	14,595,197
Cost of sales		<u>(11,308,316)</u>	<u>(11,188,890)</u>
Gross profit		3,019,621	3,406,307
Other operating charges		(1,926,009)	(1,344,269)
Administrative expenses		(1,943,519)	(1,889,300)
Other operating income		<u>51,927</u>	<u>30,692</u>
Operating (loss)/profit		(797,980)	203,430
Exceptional item			
Profit on sale of fixed asset freehold property		189,136	-
Net interest	2	<u>(182,857)</u>	<u>(63,179)</u>
(Loss)/profit on ordinary activities before taxation	1	(791,701)	140,251
Tax on (loss)/profit on ordinary activities	4	<u>-</u>	<u>(1,335)</u>
Loss transferred from reserves	12	<u>(791,701)</u>	<u>138,916</u>

There were no recognised gains or losses other than the loss for the financial year.

The accompanying accounting policies and notes form an integral part of these financial statements.

HOMAG U.K. LIMITED

BALANCE SHEET AT 31 DECEMBER 2002

	Note	2002 £	2002 £	2001 £	2001 £
Fixed assets					
Tangible assets	6		1,904,996		2,124,089
Current assets					
Stocks	7	1,845,137		1,586,316	
Debtors	8	4,773,648		3,790,922	
Cash at bank and in hand		5,081		2,611	
		6,623,866		5,379,849	
Creditors: amounts falling due within one year	9	(6,605,178)		(3,874,441)	
Net current assets			18,688		1,505,408
Total assets less current liabilities			1,923,684		3,629,497
Creditors: amounts falling due after more than one year	10		(882,720)		(1,690,849)
			1,040,964		1,938,648
Capital and reserves					
Called up share capital	11		2,037,778		2,037,778
Revaluation reserve			-		105,983
Profit and loss account	12		(996,814)		(205,113)
Shareholders' funds	13		1,040,964		1,938,648

The financial statements were approved by the Board of Directors on

Thomas Frey
22.01. 2004

T Frey
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

HOMAG U.K. LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

1 TURNOVER AND LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

The turnover and loss before taxation are attributable to one activity, which is carried out in the United Kingdom.

The loss on ordinary activities is stated after:	2002	2001
	£	£
Auditors' remuneration	18,000	14,200
Depreciation of tangible fixed assets, owned	116,407	93,960
Other operating lease rentals	50,280	45,326

2 NET INTEREST

	2002	2001
	£	£
On bank loans and overdrafts	162,675	61,312
Finance charges in respect of finance leases	-	6,962
Interest payable to group undertakings	29,687	-
Other interest payable and similar charges	2,130	35
	194,492	68,309
Other interest receivable and similar income	(11,635)	(5,130)
	182,857	63,179

3 DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows:	2002	2001
	£	£
Wages and salaries	1,243,043	1,438,909
Social security costs	138,990	144,711
Other pension costs	33,642	28,963
	1,415,675	1,612,583

The average number of employees of the company during the year was 44 (2001: 52).

HOMAG U.K. LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

Remuneration in respect of directors was as follows:	2002 £	2001 £
Emoluments	168,155	140,748
Pension contributions to money purchase pension schemes	10,968	4,343
	<u>179,123</u>	<u>145,091</u>

During the year 2 directors (2001: 2) participated in money purchase pension schemes.

The amounts set out above include remuneration in respect of the highest paid director as follows:

Emoluments	95,951	82,466
Pension contributions to money purchase pension schemes	<u>9,068</u>	<u>2,500</u>

4 TAX ON LOSS ON ORDINARY ACTIVITIES

	2002 £	2001 £
UK Corporation tax at 30% (2001: 30%)	<u>-</u>	<u>1,335</u>

Unrelieved tax losses of approximately £700,000 (2001: £90,000) are available to offset against future taxable trading profits.

5 FACTORS AFFECTING THE TAX CHARGE

The tax assessed for the period is higher than the standard rate of corporation tax in the UK of 30% (2001: 30%). The differences are explained as follows:

	2002 £	2001 £
(Loss)/profit on ordinary activities before tax	(791,701)	140,251
(Loss)/profit on ordinary activities at the standard rate of corporation tax in the UK of 30%	(237,510)	42,075
Effect of:		
Expenses not deductible for tax purposes	27,000	13,949
Capital allowances in excess of depreciation	25,561	(15,578)
Utilisation of losses	-	(39,112)
Deferred tax asset on losses not recognised	184,949	
Current tax charge for the period	<u>-</u>	<u>1,335</u>

HOMAG U.K. LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

6 TANGIBLE FIXED ASSETS

	Freehold land and buildings £	Office and computer equipment £	Motor vehicles £	Total £
Cost or valuation				
At 1 January 2002	1,871,550	343,427	207,476	2,422,453
Additions	127,969	118,498	-	246,467
Disposals	(353,865)	-	(37,985)	(391,850)
At 31 December 2002	1,645,654	461,925	169,491	2,277,070
Depreciation				
At 1 January 2002	14,009	165,480	118,875	298,364
Provided in the year	31,204	53,517	31,686	116,407
Eliminated on disposals	(14,009)	-	(28,688)	(42,697)
At 31 December 2002	31,204	218,997	121,873	372,074
Net book amount at 31 December 2002	<u>1,614,450</u>	<u>242,928</u>	<u>47,618</u>	<u>1,904,996</u>
Net book amount at 31 December 2001	<u>1,857,541</u>	<u>177,947</u>	<u>88,601</u>	<u>2,124,089</u>

7 STOCKS

	2002 £	2001 £
Goods for resale	<u>1,845,137</u>	<u>1,586,316</u>

8 DEBTORS

	2002 £	2001 £
Trade debtors	3,751,000	3,379,730
Amounts owed by group undertakings	717,540	154,931
Other debtors	25,579	11,493
Prepayments and accrued income	279,529	244,768
	<u>4,773,648</u>	<u>3,790,922</u>

HOMAG U.K. LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

9 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002 £	2001 £
Bank loan and overdrafts	1,210,100	231,237
Trade creditors	376,058	361,568
Amounts owed to group undertakings	2,204,396	2,494,343
Corporation tax	1,335	1,335
Social security and other taxes	2,346,831	762,942
Accruals and deferred income	466,458	23,016
	<u>6,605,178</u>	<u>3,874,441</u>

The bank overdrafts are secured by a fixed and floating charge over all of the company's assets.

10 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2002 £	2001 £
Bank loan	<u>882,720</u>	<u>1,690,849</u>

The bank loan relates to a mortgage secured against the Castle Donington freehold property. The mortgage is repayable by equal annual instalments over a 10 year period.

Bank and other borrowings are repayable as follows:

	2002 £	2001 £
Within one year	1,210,100	231,237
After one and within two years	81,913	235,406
After two and within five years	275,916	558,883
After five years	524,891	896,560
	<u>2,092,820</u>	<u>1,922,086</u>

Bank and other borrowings repayable after five years comprise:

	2002 £	2001 £
Bank loans	<u>524,891</u>	<u>896,560</u>

HOMAG U.K. LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

11 SHARE CAPITAL

	2002 £	2001 £
Authorised 2,500,000 Ordinary shares of £1 each	<u>2,500,000</u>	<u>2,500,000</u>
Allotted, called up and fully paid 2,037,778 Ordinary shares of £1 each	<u>2,037,778</u>	<u>2,037,778</u>

12 RESERVES

	Profit and loss account £
At 1 January 2002	(205,113)
Retained loss for the year	<u>(791,701)</u>
At 31 December 2002	<u>(996,814)</u>

13 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2002 £	2001 £
Loss for the financial year	(791,701)	138,916
Release of revaluation reserve on sale of property	(105,983)	-
Issue of shares	-	2,027,778
Purchase of shares	-	<u>(1,827,778)</u>
Net decrease in shareholders' funds	<u>(897,684)</u>	338,916
Shareholders' funds at 1 January 2002	<u>1,938,648</u>	<u>1,599,732</u>
Shareholders' funds at 31 December 2002	<u>1,040,964</u>	<u>1,938,648</u>

14 CAPITAL COMMITMENTS

The company had no capital commitments at 31 December 2002 or 31 December 2001.

15 CONTINGENT LIABILITIES

There was a forward exchange contract with the company's bankers at 31 December 2002 for £1,991,128 (2001: 1,431,990)

HOMAG U.K. LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

16 PENSIONS

The company operates two defined contribution pension schemes, one for the benefit of the majority of directors and employees and the other for the benefit of two employees (closed to further members). The assets of the schemes are administered by trustees in separate funds independent from those of the company.

17 LEASING COMMITMENTS

Operating lease payments amounting to £127,800 (2001: £149,549) are due within one year. The leases to which these amounts relate expire as follows:

	2002		2001	
	Land and buildings £	Other £	Land and buildings £	Other £
In one year or less	-	33,938	11,000	8,685
Between one and five years	22,500	71,362	21,440	108,424
	<u>22,500</u>	<u>105,300</u>	<u>32,440</u>	<u>117,109</u>

18 RELATED PARTY TRANSACTIONS

During the year the company paid rent charges of £49,634 and dilapidation costs of £25,000 to the J D Pension Scheme for the lease of three properties in the year. The company is related by the virtue of Kelvin Wilkins being a beneficiary of the J D Pension Scheme. The balance outstanding at the year end was £nil.

19 FINANCIAL SUPPORT

Homag AG has confirmed to the directors that it will continue to provide financial support to the company for a period of not less than 12 months from the date of the approval of the financial statements.

The directors have considered this in conjunction with their plans for the company and consider it is appropriate to prepare the financial statements on the going concern basis.

20 CONTROLLING RELATED PARTY

The directors consider that the company's ultimate parent undertaking and controlling party is Lignum Technologie AG, a company registered in Germany. The company has taken advantage of the exemption under FRS 8 to disclose transactions with group undertakings.

The largest group of undertakings for which group accounts have been drawn up is headed by Lignum Technologie AG, incorporated in Germany. Copies of these financial statements are available from Lignum Technologie AG, Homagstrasse 3-5, D 72296, Schopfloch.