Magnet Limited

Report and financial statements

for the 52 weeks ended 27 September 1997

Registered No: 2762625

Report and financial statements for the 52 weeks ended 27 September 1997

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Directors' report

1. Principal activities and business review

The principal activities of the Company are the manufacture, merchanting and retailing of joinery, fitted kitchens and related products.

Operating Review

In the UK, the Company outperformed the market in each of its segments: kitchen furniture, joinery and PVCu products. The business demonstrated solid growth in sales and profitability, despite variable consumer confidence and a highly competitive environment.

Sales for the year were up by 19% to £231.1m (1996 £195.1m) including the first full year contribution from Magnet Glass (acquired in April 1996), and by 15% on a "like for like" basis. Operating profit increased to £10.2m from £2.7m in 1996.

In kitchens, the Company successfully increased its market share with a rise in sales of 16% on the previous year. The overall market is estimated to have grown by 10%.

The Company's average order value rose by 9% in the period, reflecting success in its strategy to reposition its products and services towards the upper market segments. Three new kitchens were launched. Bloomsbury achieved over £1m in sales within four months, and the average order value of around £5,000 demonstrates the ability of the Magnet brand to move further up-market. The new Koblenz ranges and free-standing Shaker furniture also performed well. The range of kitchen appliances has been significantly extended to provide a full package and integrated service for customers seeking a quality fitted kitchen. A new range of bedroom furniture was introduced with great success. Bathroom furniture offers another opportunity for growth and is being test marketed in some regions.

Retail branch productivity improved on all key measures, and 12 new outlets were opened during the year, bringing the total number of stores to 215. All new store locations are based on intense geo-demographic analysis, to open stores in appropriate towns, and to maximise revenue potential by creating ease of access for the Company's target customers. Each new branch has traded to expectation.

Progress was made during the year on vacant properties, with the result that the annualised dead-rent cost going forward has been reduced to around £1m, a much improved situation. Full provision has been made to cover this diminishing obligation.

The Darlington factory continued its rapid recovery following the industrial dispute in September 1996. The new workforce was recruited in October and November and within 10 months productivity levels were 15% higher than pre-strike levels. In January 1997, following the annual certification process, the ISO 9002 Quality Assurance accreditation for the factory was confirmed and a nationally recognised safety award was received.

In the joinery segment, the upturn in housing activity contributed to significant growth with sales increasing by 16% year-on-year. We successfully introduced a price increase during the year on the majority of our timber joinery products, with signs in the second half of pricing pressures abating. Margins subsequently improved.

An expanded range of products is now offered, including new external doors, stair parts and hardware. Further margin improvements were secured by the joinery manufacturing plants at Keighley, Rotherham and Penrith, which achieved their cost reduction targets with better raw material yields and higher productivity.

The Company's PVCu sales grew by 9% on a like for like basis. We have expanded the business into 12 core areas, giving a regional presence in the North, North West and South East. The business is now fully integrated within the operating structure of the Company. The PVCu factory has been reconfigured and re-equipped to meet increasing demand, driven largely by the switch by housebuilders to PVCu windows from traditional wood.

The PVCu direct selling operation was reorganised to provide more cost-effective access to a sizeable market. The new management team has begun to deliver improvements in performance during the last quarter, indicating the further profit potential which should show in next year's results.

As a national brand, Magnet is well positioned to meet the needs of customers who want superior products and service at cost-effective prices. The company's vertical integration and customer base of professional joiners enhance the brand and give it a distinct position in the market. This gives the brand a strong platform for continuing growth.

2. Results and dividends

The profit on ordinary activities of the Company before taxation amounted to £8,190,000 (1996 - £1,272,000). On 26 September 1997 the Directors declared and paid a dividend of 1.61p per share (1996 1.61p).

3. Research and development

It is the policy of the Company to continually investigate and develop new and improved methods of manufacturing and to evaluate, manufacture and distribute new products complementary to the Company's existing range.

4. Board of Directors

The Directors who held office during the period and to date are as follows:

A J Bowkett	Chairman
D W Williams	
R Hammond	(resigned 30 September 1996)
G A Favell	
D J Mulhall	
A G R Wilson	
K I Bray	
K D Partington	(resigned 4 April 1997)
J P Findler	(appointed 20 March 1997)
A R Airey	(appointed 30 June 1997)

The Directors had no interests in the shares of the Company.

The interests of A J Bowkett, D J Mulhall and J P Findler in the shares of the ultimate parent company, Berisford plc, are disclosed in the accounts of that company.

The interests of the remaining Directors in office at the period end in the ordinary shares of the ultimate parent company are as follows:-

	At 27 September 1997			At 29 September 1996		
	Executive Share Option Scheme	SAYE Share Option Scheme	Ordinary Shares	Executive Share Option Scheme	SAYE Share Option Scheme	Ordinary Shares
A R Airey	57,000	Nil	Nil	Nil	Nil	Nil
K I Bray	148,881	4,027	Nil	98,881	2,286	Nil
G A Favell	161,590	17,410	Nil	111,590	Nil	Nil
D W Williams	283,377	Nil	2,088	123,655	Nil	Nil
A G R Wilson	236,963	8,705	Nil	216,963	Nil	Nil

Any movements from 29 September 1996 to 27 September 1997 are entirely attributable to new options granted during the year. No options have been exercised or lapsed.

No Director has a material interest in any contract with Berisford plc group companies other than service contracts.

5. **Tangible fixed assets**

The changes in the tangible fixed assets of the Company during the year are summarised in Note 9 to the accounts. The Directors believe there is no significant difference between the open market value and the balance sheet value of the Company's interest in land and buildings.

6. **Charitable and political donations**

The Company made charitable donations of £Nil (1996 £10,000).

7. **Close company status**

The Company is not a close company within the provisions of the Income and Corporation Taxes Act 1988, nor was it a close company during the year.

8. **Auditors**

A resolution proposing the reappointment of Deloitte & Touche as auditiors to the Company will be put to the members at the Annual General Meeting.

9. **Disabled employees**

Applications for employment from disabled persons are considered on their merits and regard is paid only to the ability of an applicant to carry out satisfactorily the functions required. The same policy is adopted when considering career development and promotion, while in the field of training a distinction would only be made in order to meet the particular requirements of the disabled person. If an employee became disabled while in employment, all due consideration would be given to continued employment whether in the same or in an alternative capacity and training would be given where necessary.

10. **Employee consultation**

The Company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting the performance of the Company. This is achieved through formal and informal meetings and through "Magnet Matters", a periodical newspaper which is sent to all employees.

11. **Creditor payment policy**

Under normal circumstances suppliers of goods and services are paid within the period agreed with the suppliers. Creditor days at 27 September 1997 were 38 days.

By Order of the Board

A G R Wilson
Director
1 JUNE 1998

Directors' responsibilities statement

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 judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed,
- 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.

By Order of the Board

A G R Wilson
Director
1 JUNE 1998

Auditors' report to the members of Magnet Limited

We have audited the financial statements on pages 7 to 19, which have been prepared under the accounting policies set out on pages 9 and 10.

Respective responsibilities of directors and auditors

As described on page 5 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on those statements and to report our opinion to you.

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 financial statements. It also includes an assessment of the significant estimates and judgments 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 at 27 September 1997 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
10-12 East Parade
Leeds
LS1 2AJ
1 June 1998

Profit and loss account

	Notes	52 Weeks ended 27 September 1997 £'000	52 Weeks ended 28 September 1996 £'000
Turnover	1	231,059	195,122
Cost of Sales		161,959	138,279
Gross Profit		69,100	56,843
Operating costs	2	58,934	54,188
Operating profit	3	10,166	2,655
Profit on sale of fixed assets		13	335
Profit on ordinary activities before interest		10,179	2,990
Net interest (payable)	6	(1,989)	(1,718)
Profit on ordinary activities before taxation		8,190	1,272
Taxation	7	-	-
Profit on ordinary activities after taxation		8,190	1,272
Dividends	8	250	250
Retained profit for the financial year	17	7,940	1,022

All trading during the year is in respect of continuing operations and is in respect of the business of Magnet Limited.

There were no recognised gains or losses in the year other than those reflected in the profit and loss account. Accordingly, a separate statement of recognised gains and losses has not been provided.

The accompanying notes form an integral part of these accounts.

Magnet Limited

Balance sheet

As at:	Notes	27 September 1997 £'000	28 September 1996 £'000
Fixed assets			
Tangible assets	9	36,011	39,505
Current assets			
Stocks	10	37,480	40,650
Debtors	11	27,211	25,214
Cash at bank and in hand		-	2,037
		64,691	67,901
Creditors: falling due within one year	12	50,266	61,616
Net current assets		14,425	6,285
Total assets less current liabilities		50,436	45,790
Creditors: falling due after more than one year	13	3,124	6,418
Net assets		47,312	39,372
Capital and reserves			
Called up share capital	16	15,510	15,510
Other reserve	17	5,900	5,900
Profit and loss account	17	25,902	17,962
Equity shareholders' funds	18	47,312	39,372

Approved by the Board on 1 JUNE 1998

Director

Director

The accompanying notes form an integral part of these accounts.

Accounting policies

Basis of accounting

The accounts have been prepared under the historical cost convention and comply in all respects with applicable accounting standards.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at annual rates calculated to write off the cost of each asset on a straight line basis over its expected useful life as follows:

Freehold and long leasehold land	nil
Freehold and long leasehold buildings	2% to 10%
Plant, equipment and vehicles	10% to $33^1/_3$%

Leases

Finance leases are capitalised and depreciated over the shorter of the lease term and the expected useful life of the asset. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding. Operating lease rentals are charged to the profit and loss account as incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value. The cost of work-in-progress and finished goods includes an appropriate portion of manufacturing and distribution overheads. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Turnover

Turnover represents the invoiced value of goods sold and services provided, excluding value added tax and trade discounts.

Taxation

Corporation tax payable is provided on taxable profits at the current rate. Deferred taxation is provided using the liability method to the extent that it is probable that a liability will crystallise.

Foreign currency translation

Monetary assets and liabilities in foreign currencies are translated into sterling using forward exchange contract rates where applicable or year end exchange rates otherwise and the differences arising are included in trading profit, together with exchange differences arising from settled transactions.

Pension costs

The Company operates a defined benefit pension scheme. The fund is valued on a regular basis by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the Company benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme. Any difference between amounts charged in the profit and loss account and paid to the pension scheme is shown on the balance sheet as an asset or a liability.

Cash flow statement

The Company is a wholly owned subsidiary of a company incorporated in the United Kingdom and has taken advantage of the exemption in Financial Reporting Standard No 1 from the requirement to include a cash flow statement.

Notes to the accounts

1 Turnover

	1997 £'000	1996 £'000
Third party by destination:		
UK	226,508	190,687
Rest of Europe	3,644	3,137
Other	907	1,298
	231,059	195,122

Turnover consists entirely of sales originating in the United Kingdom.

2 Operating costs

	1997 £'000	1996 £'000 As restated
Continuing operations		
Selling and distribution costs	50,526	45,972
Administrative expenses	8,408	8,216
	58,934	54,188

The above analysis as at 1996 has been restated in order to give a fairer presentation as at that date. As a result of the restatement Administrative expenses have decreased by £1,356,000 with a corresponding increase in Selling and distribution costs.

3 Operating profit

	1997 £'000	1996 £'000
Operating profit is stated after charging:		
Depreciation of tangible fixed assets - owned	5,548	5,442
Depreciation of tangible fixed assets - leased	317	317
Rental of plant and equipment under operating leases	2,426	2,206
Rental of land and buildings from fellow subsidiaries	1,203	994
Rental of land and buildings from third parties	12,212	11,861
Auditors' remuneration - audit	54	66
- other fees	-	-
Staff costs (Note 4)	44,991	41,375

4 Staff costs

	1997 £'000	1996 £'000
a Staff costs, including Directors, comprised:		
Wages and salaries	40,983	37,574
Social security costs	3,103	3,032
Other pension costs	905	769
	44,991	41,375

	1997	1996 As restated
b The average weekly number of employees was:		
Manufacturing and distribution	1,221	1,234
Sales and marketing	932	845
Office and management	160	179
	2,313	2,258

The average number of employees for 1996 has been restated from 2,393 to 2,258 in order to give a more accurate presentation as at that date.

5 Directors' remuneration

	1997 £'000	1996 £'000
Remuneration:		
Salaries and other emoluments	525	584
Bonuses	25	8
Pension contributions	-	23
	550	615

Directors' remuneration above includes £360,000 (1996 £435,000) paid on behalf of the Company by its ultimate parent company with this amount (1996 £410,000) being recharged to the Company.

All Directors are members of a defined benefit pension scheme.

Directors' remuneration (excluding pension contributions) includes:

	1997	1996

The accrued pension of the highest paid director at 27 September 1997 was £3542.

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6 Net interest (payable)/receivable

	1997 £'000	1996 £'000
Interest payable:		
Loan from ultimate holding company	2,085	2,098
Finance Leases	81	107
Other	57	120
	2,223	2,325
Interest receivable:		
Bank balances	1	20
Other	8	13
Currency Deposits with ultimate holding company	225	574
	234	607
Net interest (payable)	(1,989)	(1,718)

7 Taxation

There is no tax charge for the year (1996:£Nil) as available brought forward tax losses have been utilised.

Trading losses carried forward at 27 September 1997 amounted to approximately £67 million.

8 Dividends

	1997 £'000	1996 £'000
On 26 September 1997 the Board declared and paid a dividend of 1.61p per share (1996 1.61p).	250	250

9 Tangible fixed assets

	Land and buildings Freehold	Long leasehold	Short leasehold	Plant, equipment and vehicles	Assets under construction	Total
	£000	£000	£000	£000	£000	£000
Cost						
At 28 September 1996	14,269	2,990	-	49,993	565	67,817
Additions	63	-	1,015	3,680	233	4,991
Reclassifications	159	(700)	1,058	48	(565)	-
Disposals	(2,250)	-	-	(1,240)	-	(3,490)
At 27 September 1997	12,241	2,290	2,073	52,481	233	69,318
Depreciation						
At 28 September 1996	367	138	-	27,794	13	28,312
Reclassifications	4	(61)	69	-	(12)	-
Charge for year	202	27	141	5,494	1	5,865
Eliminated in respect of disposals	(132)	-	-	(738)	-	(870)
At 27 September 1997	441	104	210	32,550	2	33,307
Net book value						
At 27 September 1997	11,800	2,186	1,863	19,931	231	36,011
Net book value						
At 28 September 1996	13,902	2,852	-	22,199	552	39,505

The net book value of plant, equipment and vehicles held under finance leases was £793,000 (1996 £1,110,000). The depreciation charge in respect of these assets was £317,000 (1996 £317,000).

10 Stocks

	1997	1996
	£'000	£'000
Raw materials and consumables	5,647	6,943
Work-in-progress	2,659	2,701
Finished goods	29,174	31,006
	37,480	40,650

At the year end the Directors are not aware of any significant difference between book value and replacement cost of stocks.

Magnet Limited

11 Debtors

	1997 £'000	1996 £'000
Trade debtors	24,245	20,889
Other debtors	1,349	2,109
Prepayments and accrued income	1,617	2,216
	27,211	25,214

Other debtors include amounts receivable after more than one year of £300,000 (1996 £700,000).

12 Creditors: falling due within one year

	1997 £'000	1996 £'000
Trade creditors	14,675	16,380
Other creditors	6,836	6,436
Amounts owed to ultimate holding company	8,602	21,277
Other taxes and social security	5,476	3,501
Accruals and deferred income	8,851	5,766
Provisions for liabilities and charges (note 14)	4,662	7,539
Lease obligations (note 15)	317	317
Loan note (note 15)	400	400
Bank overdraft	447	-
	50,266	61,616

13 Creditors: falling due after more than one year.

	1997 £'000	1996 £'000
Provisions for liabilities and charges (note 14)	2,348	4,925
Lease obligations (note 15)	476	793
Loan note (note 15)	300	700
	3,124	6,418

14 Provisions for liabilities and charges

a Movements on provisions during the year comprise:

	Reorganisation £'000	Pensions £'000	Total £'000
At 28 September 1996	10,614	1,850	12,464
Utilised	(5,302)	(1,046)	(6,348)
Provided	-	894	894
At 27 September 1997	5,312	1,698	7,010
Due within one year			4,662
Due after more than one year			2,348
			7,010

b The reorganisation provision comprises:

	1997 £'000	1996 £'000
Vacant property costs	3,834	6,865
Property repairs and maintenance	449	1,983
Other	1,029	1,766
	5,312	10,614

15 Other matters

a Capital commitments

	1997 £'000	1996 £'000
Commitments for future capital expenditure:		
Contracted for	508	209

b Lease obligations

	1997 £'000	1996 £'000
Operating lease payments which the Company is committed to make during the next financial year are analysed as follows:		
Land and buildings		
Leases expiring:		
Within one year	418	27
Between two and five years inclusive	268	275
Thereafter	14,625	14,900
	15,311	15,202
Other assets		
Leases expiring:		
Within one year	188	147
Between two and five years inclusive	2,150	1,967
Thereafter	18	-
	2,356	2,114

The future minimum lease payments to which the Company is committed under finance leases are as follows:

	1997 £'000	1996 £'000
Within one year	384	384
Between two and five years inclusive	578	962
Thereafter	-	-
	962	1,346
Finance charges allocated to future periods.	(169)	(236)
	793	1,110
Disclosed in the accounts as:		
Creditors due within one year	317	317
Creditors due after more than one year	476	793
	793	1,110

c **Loan Note**

On the 10th April 1996 the Company issued a £1.2 million unsecured loan note as part consideration for the acquisition of the undertaking and assets of Allerton Glass Co. Limited repayable in equal quarterly instalments. The amount outstanding is repayable as follows:

	1997 £'000	1996 £'000
Within one year	400	400
Between two and five years inclusive	300	700
	700	1100
Disclosed in the accounts as:		
Creditors due within one year	400	400
Creditors due after more than one year	300	700
	700	1100

d **Deferred taxation**

Deferred taxation has not been provided in the financial statements. The amount of the potential asset is as follows:-

	1997 £'000	1996 £'000
Tax effect of timing differences because of:		
Losses	20,770	24,750
Excess of depreciation over capital allowances	980	1,652
Potential balancing charges on sale of properties	(2,479)	(3,331)
Other	2,162	4,196
	21,433	27,267

16 **Share capital**

	1997	1996
Authorised, allotted, called up and fully paid		
15,510,300 ordinary shares of £1 each	£ 15,510,300	£ 15,510,300

17 **Reserves**

	Other Reserves £'000	Profit and Loss account £'000
The movement for the period comprised:		
At 28 September 1996	5,900	17,962
Retained profit for the financial period	-	7,940
At 27 September 1997	5,900	25,902

18 **Reconciliation of movement in equity shareholder's funds**

	1997 £'000	1996 £'000
Profit for the financial period	7,940	1,022
Other reserve	-	(1,231)
Opening equity shareholders' funds	39,372	39,581
Closing equity shareholders' funds	47,312	39,372

19. Pension obligations

The Company operates a defined benefit pension scheme covering the majority of full time employees. A valuation has been carried out by qualified independent actuaries at 1 February 1996 using the projected unit method.

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, pensions and dividends. The assumptions used in the valuation were as follows:

-	investment returns	9.5% p.a.
-	increase in:	
	salaries	7.5% p.a.
	present and future pensions	4.0% p.a.
	dividends	5.0% p.a.

The total market value of the scheme's assets, at the last valuation date, together with the funding level as a percentage of accrued benefits after allowing for future increases in earnings was £68.1m (102%).

The total pension cost for the year was £894,000 (1996 £750,000).

An amount of £1,698,000 (1996 £1,850,000) is included in provisions (note 14).

Certain employees are members of the Berisford (1948) Pension Scheme, a defined benefit scheme. Details of this scheme are given in the Berisford plc accounts.

20. Contingent Liabilities

a. There is a contingent liability in respect of upstream guarantees issued by the Company, together with other UK subsidiaries of the Berisford plc group, in favour of National Westminster Bank plc as security for facilities totalling £21,000,000 and Barclays Bank plc as security for facilities totalling £20,000,000, both to Berisford plc.

b. Prior to the Company acquiring the business of the company now known as WMH (No. 21) Limited ("WMH") in 1993, legal proceedings had been instituted by the Receivers of John Dee Group Ltd and John Dee Transport Ltd for recovery of unpaid invoices. WMH was advised that it had good defences to such proceedings. The Company had agreed to indemnify WMH in respect of these proceedings.

   During the year, and as reported as a post balance sheet event in last year's financial statements, judgment has been awarded in favour of the Receivers in an amount of £1.81m plus costs. Notice of Appeal has been lodged by WMH on the basis of further legal advice that it has grounds to appeal the judgment with a reasonable chance of success.

   Full provision in respect of this amount has not been made in the accounts.

21. Parent Company

The ultimate controlling entity is Berisford plc, a company incorporated in England and Wales. The immediate controlling entity is Berisford Industrial Holdings Limited, a company incorporated in England and Wales. Copies of the Financial Statements of Berisford plc can be obtained from the Secretary at Number One, Baker Street, London W1M 1AA.

22. **Related Party Transactions**

The Company has taken advantage of the exemption granted by paragraph 3(c) of Financial Reporting Standard 8, "Related party disclosures", not to disclose transactions with entities that are part of Berisford plc, as the consolidated financial statements, in which the Company is included, are publicly available.