Registered Number 2762625

# Magnet Limited

Annual report and financial statements

for the year ended 31 December 2002

# Magnet Limited

# Annual report and financial statements for the year ended 31 December 2002

## Contents

# Magnet Limited

## Directors and advisers for the year ended 31 December 2002

**Directors**
G A Favell
F Cappelen
L Rappe

**Secretary**
N J Saul

**Auditors**
PricewaterhouseCoopers LLP
Benson House
33 Wellington Street
Leeds
LS1 4JP

**Bankers**
Handelsbanken A.B
100 Wellington Street
Leeds
LS1 4LT

**Registered Office**
Royd Ings Avenue
Keighley
West Yorkshire
BD21 4BY

**Registered Number**
2762625

# Magnet Limited

## Directors' report for the year ended 31 December 2002

The directors present their report and the audited financial statements for the 12 months ended 31 December 2002. The comparative period is the 15 month period ended 31 December 2001.

**Principal activities and business review**

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

On 18 July 2002, the Company disposed of the trade and assets of Flint for consideration of £1,590,000 giving rise to a loss on disposal of £357,000. On 21 July 2002, the company also disposed of the trade and assets of Penrith for consideration of £6,935,000 generating a profit on disposal of £3,127,000.

**Results and dividends**

The profit on ordinary activities of the Company before taxation amounted to £12,830,000 (2001: £18,532,000). Dividends of £15,500,000 were proposed and paid during the year (2001: £40,862,000 dividends were proposed and paid).

**Operating review**

The consumer market for Magnet products was favourable during 2002 with good economic conditions during the first half of the year. Housing transactions grew by 8.8% with housebuilding completions rising by 5.4%. Growth in the builders merchants sector is estimated to have grown by 3.7% in 2002 but this growth declined during quarter 2. During 2002, Magnet estimates that the UK kitchen market grew by 4%.

Retail kitchen sales growth was driven by a combination of increased average order values and new store openings. Further investment in bedroom displays and staff training brought strong growth in this area. Home Office was launched as a trial in 6 stores with encouraging results. Investment in new product development continued with 4 new kitchen ranges launched in the second half of the year.

Following a successful trial, Magnet entered into a full agreement to supply flat-pack kitchens to the UK DIY retailer Homebase. These kitchens are sourced from within the Nobia family and at the end of the year, 150 stores had kitchens on display. Over the year, we opened 8 new Magnet concessions inside Homebase stores, enabling us to contact more of the core, affluent Magnet customer base. Cannibalisation of sales has been limited and there is evidence to suggest that Magnet stores in the area have benefited from having a concession in the same town with more potential customers seeing our products on show. A number of loss making stores were disposed of in 2002.

The disposal of the Penrith and Flint manufacturing operations has impacted on sales performance of the direct sales business during the second half of the year with flush door and PVCu sales moving to the new owners. However, the anticipated decline has not been as steep as expected with sales of product manufactured at Keighley holding up strongly over the second half of the year.

The retail website (www.magnet.co.uk) was relaunched in December 2002. The site was designed to integrate with the main offline activity and the presentation style is reflected in our brochures and advertising communications. Design styling ideas, a map based store locator and a home survey appointment service are all new features of the site.

## Directors' report for the year ended 31 December 2002 (continued)

**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.

**Board of directors**
The directors who held office during the year and to date are as follows:
F Cappelen
G A Favell
L Rappe

According to the register, required to be kept by Section 325 of the Companies' Act 1985, no director had any interests in the shares of the Company. As permitted by statutory instrument, the register does not include details of the shareholding of any director who is also a director of the parent Company.

Gary Favell had 233,240 ordinary shares in the ultimate parent company, Nobia AB, as at 31 December 2002 (2001: 9,821).

**Charitable and political donations**
The Company made no charitable or political donations during the year (2001: Nil).

**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.

**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 performance of the Company. This is achieved through monthly team briefings and "Magnet Today" a quarterly magazine which is sent to all employees.

**Creditor payment policy**
Under normal circumstances suppliers of goods and services are paid within the period agreed with the suppliers. Creditor days at 31 December 2002 were 42 days (31 December 2001: 49 days).

# Magnet Limited

## Directors' report for the year ended 31 December 2002 (continued)

**Statement of directors' responsibilities**
Company law requires the directors to prepare financial statements for each financial period which gives 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. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently with the exception of the changes arising on the adoption of new accounting standards in the year as explained on page 9 under 'Accounting Policies'. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2002 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and 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.

**Auditors**
Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 3 June 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the annual general meeting.

**By order of the Board**

**G A Favell**
Director
18 December 2003

# Independent auditors' report to the members of Magnet Limited

We have audited the financial statements which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes.

**Respective responsibilities of directors and auditors**
The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable 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 issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

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

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

**Opinion**
In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

**PricewaterhouseCoopers LLP**
Chartered Accountants and Registered Auditors
Leeds
22 December 2003

# Magnet Limited

## Profit and loss account for the year ended 31 December 2002

| | Note | 12 months ended 31 December 2002 £'000 | 15 months ended 31 December 2001 £'000 |
|---|---|---|---|
| Turnover | 1 | **257,036** | 299,632 |
| Cost of sales | | **(156,823)** | (197,332) |
| **Gross profit** | | **100,213** | 102,300 |
| Operating expenses | | **(76,941)** | (88,136) |
| Exceptional operating expenses | 6 | **(8,344)** | (887) |
| Total operating expenses | 2 | **(85,285)** | (89,023) |
| **Operating profit** | 3 | **14,928** | 13,277 |
| Income from shares in group companies | | **-** | 9,481 |
| Profit on sale of trade and assets | | **2,770** | - |
| Profit on sale of tangible fixed assets | | **-** | 950 |
| **Profit on ordinary activities before interest and taxation** | | **17,698** | 23,708 |
| Interest receivable and similar income | 7 | **69** | 188 |
| Interest payable and similar charges | 8 | **(4,937)** | (5,364) |
| **Profit on ordinary activities before taxation** | | **12,830** | 18,532 |
| Tax on profit on ordinary activities | 9 | **(2,383)** | 4,465 |
| **Profit on ordinary activities after taxation** | | **10,447** | 22,997 |
| Dividends | 10 | **(15,500)** | (40,862) |
| **Deficit for the period (note 19)** | | **(5,053)** | (17,865) |

All items dealt with in arriving at operating profit above relate to continuing operations.

There is no difference between the results stated above and their historical cost equivalents.

# Magnet Limited

## Statement of total recognised gains and losses

| | Note | 12 months ended 31 December 2002 £'000 | 15 months ended 31 December 2001 £'000 |
|---|---|---|---|
| Deficit for the period | 19 | **(5,053)** | (17,865) |
| **Total recognised gains and losses relating to the year** | | **(5,053)** | (17,865) |
| Prior year adjustments | | | |
| FRS 11 | | - | (1,825) |
| FRS 12 | | - | (1,698) |
| FRS 18 | | - | (1,997) |
| **Total recognised gains and losses since last annual report** | | **(5,053)** | (23,385) |

# Magnet Limited

## Balance sheet as at 31 December 2002

| | Note | 2002<br>£'000 | 2001<br>£'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 11 | **39,060** | 42,183 |
| Investments in subsidiary undertakings | 12 | **13,595** | 13,595 |
| | | **52,655** | 55,778 |
| **Current assets** | | | |
| Stock | 13 | **39,350** | 40,334 |
| Debtors | 14 | **26,401** | 33,287 |
| Cash at bank and in hand | | **-** | 1,896 |
| | | **65,751** | 75,517 |
| **Creditors - amounts falling due within one year** | 15 | **(78,364)** | (88,277) |
| **Net current liabilities** | | **(12,613)** | (12,760) |
| **Total assets less current liabilities** | | **40,042** | 43,018 |
| **Provisions for liabilities and charges** | 16 | **(6,595)** | (4,518) |
| **Net assets** | | **33,447** | 38,500 |
| | | | |
| **Capital and reserves** | | | |
| Called up share capital | 18 | **15,510** | 15,510 |
| Share premium account | 19 | **10,000** | 10,000 |
| Other reserves | 19 | **5,900** | 5,900 |
| Profit and loss account | 19 | **2,037** | 7,090 |
| **Equity shareholders' funds** | 20 | **33,447** | 38,500 |

The financial statements on pages 6 to 25 were approved by the board of directors on 18 December 2003 and were signed on its behalf by:

**G A Favell**
Director

# Magnet Limited

## Accounting policies

**Basis of accounting**
The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom. The principal accounting policies of the Company are set out below.

**Turnover**
Turnover represents the invoiced value of goods sold and services provided, excluding value added tax and trade discounts. Ex-stock turnover is recognised at the point of sale, whilst consumer and direct sales turnover is recognised at the point of despatch. Installation revenues are recognised 20 days after delivery has occurred.

**Tangible fixed assets**
The cost of tangible fixed assets is their purchase price cost together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

| | |
|---|---|
| Freehold land | nil |
| Freehold and long leasehold buildings | 2% to 10% |
| Short leasehold buildings | 10% |
| Plant, equipment and vehicles | 10% to 33 1/3% |

Assets under construction are not depreciated until construction is complete and the asset is reclassified in one of the above fixed asset categories.

**Investments**
Fixed asset investments are stated at cost unless, in the opinion of the Directors, there has been any impairment, in which case an appropriate adjustment is made. The Company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it is a wholly owned subsidiary of Nobia Holdings UK Limited.

**Stocks**
Stocks are stated at the lower of the 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.

**Taxation**
During the year the Company has adopted FRS19: Deferred Tax; this has not resulted in a prior year restatement.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise, based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in different periods from those in which they are included in the financial statements.

Deferred tax assets are recognised only to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

# Magnet Limited

## Accounting policies (continued)

**One-off supplier receipts**
From time to time, the Company receives payments from suppliers which are not related to the volume of product that is purchased. These receipts are held in the balance sheet as deferred income and released on a straight line basis, over the length of the contract. Rebates received from time to time, which are related to volume, are accounted for through the profit and loss account.

**Dilapidation provision**
The Company operates many of its stores under leasehold agreements. These leaseholds provide for dilapidations to be enforced on the Company at the end of the lease. The Company makes provisions for dilapidations when the related lease is within 5 years of expiry.

**Operating leases**
Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

**Impairment provision**
The Company makes provisions for the impairment of assets whose carrying value is greater than the expected future discounted cash flows that those assets are expected to generate.

**Foreign currency translation**
Trading transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling when the transactions were entered into or using forward contract rates where applicable. Current assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rate ruling at the balance sheet date or using forward contract rates where applicable. All foreign exchange differences are accounted for through the profit and loss account in the year in which they arise.

**Pension costs**
The Company operates a defined benefit pension scheme. Benefits payable to members are determined by the trust deed and rules. The scheme has been closed to new members joining since 1 November 1999. The fund is valued on a regular basis by a professionally qualified independent actuary, the rates of contribution payable by the Company 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 costs 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.

The Company also operates a defined contribution scheme for existing and new employees, where the Company contributes a set percentage of salary depending on age and service criteria. These amounts are charged directly to the profit and loss account as incurred.

**Cash flow statement**
The Company has taken advantage of the exemption in FRS 1 from the requirement to include a cash flow statement as its cash flows are incorporated in a consolidated cash flow statement presented in the consolidated financial statements of the ultimate parent undertaking, Nobia AB, a Company registered in Sweden.

# Notes to the financial statements for the year ended 31 December 2002

## 1 Turnover

| | **12 months ended 31 December 2002** | 15 months ended 31 December 2001 |
|---|---|---|
| | **£'000** | £'000 |
| Analysis of turnover by destination: | | |
| United Kingdom | **256,825** | 298,469 |
| Rest of Europe | **211** | 1,163 |
| | **257,036** | 299,632 |

Turnover consists entirely of sales originating in the United Kingdom.

## 2 Operating expenses

| | **12 months ended 31 December 2002** | 15 months ended 31 December 2001 |
|---|---|---|
| | **£'000** | £'000 |
| **Continuing operations** | | |
| Selling and distribution costs | **67,007** | 71,685 |
| Administrative expenses | **18,278** | 17,338 |
| | **85,285** | 89,023 |

# Notes to the financial statements for the year ended 31 December 2002 (continued)

## 3 Operating profit

| | 12 months ended 31 December 2002 | 15 months ended 31 December 2001 |
|---|---|---|
| | £'000 | £'000 |
| **Operating profit is stated after charging/(crediting):** | | |
| Depreciation of tangible fixed assets | **5,595** | 6,985 |
| Rental of plant and machinery under operating leases | **2,713** | 3,624 |
| Rental of land and buildings under operating leases | **14,652** | 16,286 |
| Auditors' remuneration – audit services | **90** | 102 |
| Auditors' remuneration – non-audit services | **25** | 57 |
| Profit on sale of tangible fixed assets | **(108)** | - |

## 4 Employee information

The average monthly number of employees (including directors) employed by the Company during the year was:

| | 12 months ended 31 December 2002 | 15 months ended 31 December 2001 |
|---|---|---|
| | Number | Number |
| **By activity** | | |
| Manufacturing and distribution | **798** | 981 |
| Sales and marketing | **957** | 993 |
| Office and management | **179** | 169 |
| | **1,934** | 2,143 |

| | 12 months ended 31 December 2002 | 15 months ended 31 December 2001 |
|---|---|---|
| | £'000 | £'000 |
| **Staff costs (for the above persons)** | | |
| Wages and salaries | **37,487** | 61,312 |
| Social security costs | **2,765** | 4,162 |
| Other pension costs | **2,702** | 3,133 |
| | **42,954** | 68,607 |

# Notes to the financial statements for the year ended 31 December 2002 (continued)

## 5 Directors' emoluments

| | **12 months ended 31 December 2002** | 15 months ended 31 December 2001 |
|---|---|---|
| | **£'000** | £'000 |
| Salaries and other emoluments | **290** | 255 |
| Pension contributions | **35** | 30 |
| | **325** | 285 |

Directors emoluments reflect the one (2001: one) director that is remunerated through the Company.

Retirement benefits are accruing to one (2001: one) director under a defined benefit scheme. The accrued pension of the director at 31 December 2002 was £49,600 (2001: £46,900).

## 6 Exceptional operating expenses

| | **12 months ended 31 December 2002** | 15 months ended 31 December 2001 |
|---|---|---|
| | **£'000** | £'000 |
| Asset impairment | **1,814** | - |
| Reorganisation costs | **2,080** | - |
| Warranty claims | **1,997** | 600 |
| Vacant property costs | **1,200** | - |
| Provision for amounts due from subsidiary undertakings | **1,253** | - |
| Showroom display costs | **-** | 287 |
| | **8,344** | 887 |

# Notes to the financial statements for the year ended 31 December 2002 (continued)

## 7 Interest receivable and similar income

| | 12 months ended 31 December 2002 £'000 | 15 months ended 31 December 2001 £'000 |
|---|---|---|
| On bank balances | 69 | 188 |

## 8 Interest payable and similar charges

| | 12 months ended 31 December 2002 £'000 | 15 months ended 31 December 2001 £'000 |
|---|---|---|
| On amounts owed to group undertakings: | | |
| - Enodis | - | 1,799 |
| - Nobia AB | 3,673 | 3,100 |
| Management charges | 1,264 | 436 |
| Other | - | 29 |
| | 4,937 | 5,364 |

## 9 Taxation

| | 12 months ended 31 December 2002 £'000 | 15 months ended 31 December 2001 £'000 |
|---|---|---|
| United Kingdom corporation tax at 30% (2001: 30%) | | |
| Current | - | - |
| Deferred | 3,738 | 3,776 |
| Over provision in respect of prior years | | |
| Deferred | (1,355) | (8,241) |
| Tax charge/(credit) | 2,383 | (4,465) |

No current corporation tax charge arises in the period due to the availability of tax losses brought forward. Such losses amounted to approximately £10,400,000 at 31 December 2002 (2001: £23,000,000).

# Notes to the financial statements for the year ended 31 December 2002 (continued)

## 9 Taxation (continued)

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

| | **12 months ended 31 December 2002** | 15 months ended 31 December 2001 |
|---|---|---|
| | **£'000** | £'000 |
| Profit on ordinary activities before tax | **12,830** | 18,532 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK 30% (2001: 30%) | **3,849** | 5,560 |
| Factors affecting charge for the year: | | |
| Expenses not deductible for corporation tax purposes | **147** | 325 |
| Non taxable income from dividends received | **-** | (2,844) |
| Profit on assets not taxed | **(1,078)** | (148) |
| Capital allowances in excess of depreciation | **156** | (510) |
| Group relief received for which no consideration is required | **820** | 714 |
| Short term timing differences | **42** | 218 |
| Losses utilised in the period | **(3,936)** | (3,315) |
| **Current tax charge for the year** | **-** | - |

## 10 Dividends

| | **12 months ended 31 December 2002** | 15 months ended 31 December 2001 |
|---|---|---|
| | **£'000** | £'000 |
| Interim dividend paid: £0.13 (2001: £2.63) per ordinary share to: | | |
| Enodis Plc | **-** | 32,690 |
| Manston Limited | **-** | 8,172 |
| Nobia Holdings UK Limited | **2,000** | - |
| Final dividend paid: £0.87 (2001: nil) per ordinary share to: | | |
| Nobia Holdings UK Limited | **13,500** | - |
| | **15,500** | 40,862 |

No dividends were received during the year from subsidiary undertakings, Hiveserve Limited and Flint Properties Limited (2001: £9,481,000).

# Notes to the financial statements for the year ended 31 December 2002 (continued)

## 11 Tangible fixed assets

| | Land and buildings | | | Plant, equipment and vehicles | Assets under construction | Total |
|---|---|---|---|---|---|---|
| | Freehold | Long leasehold | Short leasehold | | | |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Cost** | | | | | | |
| At 1 January 2002 | 11,299 | 1,993 | 9,881 | 66,079 | 1,740 | 90,992 |
| Additions | 65 | 8 | 2,053 | 3,042 | 792 | 5,960 |
| Reclassifications | 184 | 55 | 1,294 | (3,937) | 2,404 | - |
| Disposals | (1,064) | - | (472) | (8,279) | - | (9,815) |
| **At 31 December 2002** | **10,484** | **2,056** | **12,756** | **56,905** | **4,936** | **87,137** |
| **Depreciation** | | | | | | |
| At 1 January 2002 | 1,162 | 198 | 2,215 | 45,234 | - | 48,809 |
| Charge for the year | 401 | 40 | 1,081 | 4,073 | - | 5,595 |
| Disposals | (104) | - | (134) | (6,089) | - | (6,327) |
| **At 31 December 2002** | **1,459** | **238** | **3,162** | **43,218** | **-** | **48,077** |
| **Net book value** | | | | | | |
| **At 31 December 2002** | **9,025** | **1,818** | **9,594** | **13,687** | **4,936** | **39,060** |
| At 31 December 2001 | 10,137 | 1,795 | 7,666 | 20,845 | 1,740 | 42,183 |

## 12 Investments

| | **31 December 2002** | 31 December 2001 |
|---|---|---|
| | **£'000** | £'000 |
| Cost and net book value at 31 December 2001 and 31 December 2002 | **13,595** | 13,595 |

# Notes to the financial statements for the year ended 31 December 2002 (continued)

## 12 Investments (continued)

**Details of subsidiary undertakings**

| Undertaking | Country of Incorporation | Group Interest | Activities |
|---|---|---|---|
| Hiveserve Limited | England | 100% | Parent company of CP Hart & Sons Limited whose activities are retailing and distribution of bathrooms and kitchens. |
| Flint Properties Limited | England | 100% | Letting of properties to other group companies |
| Magnet Retail (Ireland) Limited | Eire | 100% | Retailing of fitted kitchens, bedrooms, bathrooms and related products. |

## 13 Stocks

| | **31 December 2002** | 31 December 2001 |
|---|---|---|
| | **£'000** | £'000 |
| Raw materials and consumables | **5,962** | 6,767 |
| Work in progress | **1,267** | 1,708 |
| Finished goods | **32,121** | 31,859 |
| | **39,350** | 40,334 |

# Notes to the financial statements for the year ended 31 December 2002 (continued)

## 14 Debtors

| | 31 December 2002 £'000 | 31 December 2001 £'000 |
|---|---|---|
| Trade debtors | **22,136** | 22,164 |
| Deferred taxation (note 16 (c)) | **2,082** | 4,465 |
| Amounts owed by group undertakings | **1** | 2,903 |
| Prepayments and accrued income | **2,182** | 3,755 |
| | **26,401** | 33,287 |

## 15 Creditors – Amounts falling due within one year

| | 31 December 2002 £'000 | 31 December 2001 £'000 |
|---|---|---|
| Bank overdraft | **1,670** | - |
| Trade creditors | **16,874** | 19,469 |
| Other creditors | **3,759** | 5,518 |
| Amounts owed to group undertakings | **44,759** | 47,773 |
| Other taxes and social security | **3,279** | 3,909 |
| Accruals and deferred income | **8,023** | 11,608 |
| | **78,364** | 88,277 |

## 16 Provisions for liabilities and charges

**(a) Movements on provisions during the year comprise:**

| | Pensions £'000 | Impairment £'000 | Other £'000 | Total £'000 |
|---|---|---|---|---|
| At 31 December 2001 | 20 | 1,496 | 3,002 | 4,518 |
| Charged to the profit and loss account | 2,812 | 2,887 | 3,317 | 9,016 |
| Utilised during the year | (2,546) | (867) | (2,234) | (5,647) |
| Released during the year | - | (1,073) | (219) | (1,292) |
| **At 31 December 2002** | **286** | **2,443** | **3,866** | **6,595** |

# Notes to the financial statements for the year ended 31 December 2002 (continued)

## 16 Provisions for liabilities and charges (continued)

### (b) Other provisions comprise:

| | 31 December 2002 £'000 | 31 December 2001 £'000 |
|---|---|---|
| Vacant property costs | **1,959** | 1,401 |
| Warranty claims | **1,517** | 600 |
| Property dilapidations on leasehold property | **365** | 464 |
| Showroom displays | **-** | 287 |
| Licence fees | **-** | 150 |
| Other | **25** | 100 |
| | **3,866** | 3,002 |

### (c) Deferred taxation

The movement in the deferred tax asset recognised in these financial statements is as follows:

| | £'000 |
|---|---|
| At 1 January 2002 | 4,465 |
| Charged in the year (note 9) | (2,383) |
| **At 31 December 2002** | **2,082** |

Deferred tax assets recognised in the financial statements can be summarised as follows:

| | 31 December 2002 | | 31 December 2001 | |
|---|---|---|---|---|
| | Provided £'000 | Unprovided £'000 | Provided £'000 | Unprovided £'000 |
| Excess of capital allowances over depreciation | **2,647** | - | 3,375 | - |
| Short term timing differences | **(1,610)** | - | (800) | (168) |
| Tax losses | **(3,119)** | - | (7,040) | - |
| | **(2,082)** | - | (4,465) | (168) |

# Notes to the financial statements for the year ended 31 December 2002 (continued)

## 17 Financial commitments

### (a) Capital commitments

| | 31 December 2002 £'000 | 31 December 2001 £'000 |
|---|---|---|
| Commitments for future capital expenditure: | | |
| Contracted for but not provided for in the financial statements | **2,582** | 2,821 |

### (b) Lease obligations

The Company had annual commitments under non-cancellable operating leases expiring as follows:

| | 31 December 2002 £'000 | 31 December 2001 £'000 |
|---|---|---|
| **Land and buildings** | | |
| Leases expiring: | | |
| Within one year | **105** | 75 |
| Within two and five years | **2,154** | 1,125 |
| After five years | **12,312** | 16,070 |
| | **14,571** | 17,270 |
| **Plant and equipment** | | |
| Leases expiring: | | |
| Within one year | **174** | 1,458 |
| Within two to five years | **2,925** | 2,482 |
| After five years | **32** | - |
| | **3,131** | 3,940 |

# Notes to the financial statements for the year ended 31 December 2002 (continued)

## 18 Share capital

| | 31 December 2002 £'000 | 31 December 2001 £'000 |
|---|---|---|
| **Allotted, authorised, called up and fully paid** | | |
| 15,510,301 ordinary shares of £1 each | **15,510** | 15,510 |

## 19 Reserves

| | Share premium account £'000 | Other reserve £'000 | Profit and loss account £'000 |
|---|---|---|---|
| At 1 January 2002 | 10,000 | 5,900 | 7,090 |
| Deficit for the year | - | - | (5,053) |
| **At 31 December 2002** | **10,000** | **5,900** | **2,037** |

The other reserve comprises of negative goodwill arising on acquisitions made prior to 1 October 1999. In accordance with FRS 10, this negative goodwill has not been reinstated onto the balance sheet.

## 20 Reconciliation of movement in equity shareholders' funds

| | 12 months ended 31 December 2002 £'000 | 15 months ended 31 December 2001 £'000 |
|---|---|---|
| Profit on ordinary activities after tax | **10,447** | 22,997 |
| Dividends | **(15,500)** | (40,862) |
| | **(5,053)** | (17,865) |
| Net proceeds of issue of ordinary share capital | - | 10,000 |
| Total movement in equity shareholders' funds | **(5,053)** | (7,865) |
| Opening equity shareholders' funds | **38,500** | 46,365 |
| Closing equity shareholders' funds | **33,447** | 38,500 |

# Notes to the financial statements for the year ended 31 December 2002 (continued)

## 21 Pension obligations

The Company operates a defined benefit pension scheme, The Magnet Group Pension Scheme, the assets of which are held in a separate trustee administered fund. It is subject to an independent valuation at least every three years on the basis of which a qualified actuary certifies the rate of the employer's contributions.

The latest formal actuarial valuation of the scheme was undertaken at 1 November 2002. The principal long term assumptions were that the annual rate of return on investments would be 7.3% per annum prior to retirement and 5.3% per annum in retirement, salary increases would be 3.2% per annum, and pension increases would be 2.2% per annum (for benefits accrued after April 1997). At the date of the actuarial valuation, the total market value of the scheme's assets were £82,246,000. Using these assumptions, the value of the assets represented 78% of the value of the liabilities at the valuation date. The Magnet Group Pension Scheme is closed to new entrants.

The Company operates a defined contribution scheme for new entrants, the Magnet Money Purchase Plan. The pension cost charged to the profit and loss account in respect of the Magnet Group Pension Scheme and the Magnet Money Purchase Plan was £2,812,000 (2001: £3,133,000). The pension provision as at 31 December 2002 is £286,000 (2001: £20,000) representing the excess of the pension cost over the contributions paid by the Company during the year. The pension cost is expected to increase significantly in 2003 as the assumptions set out above will apply for the full year.

The disclosures required under the transitional arrangements within FRS 17: Retirement benefits, have been calculated by qualified independent actuaries based on the most recent full actuarial valuations at 1 November 2002, updated as at 31 December 2002.

The major assumptions used by the actuary were:

| | **At 31 December 2002** | At 31 December 2001 |
|---|---|---|
| | **%** | % |
| Discount rate | **5.6** | 6.0 |
| Inflation rate | **2.4** | 2.5 |
| Salary increase rate | **3.4** | 3.5 |
| Increases for pensions in payment | | |
| Pre 6 April 1997 pensions | **0.0** | 0.0 |
| Post 6 April 1997 pensions | **2.4** | 2.5 |

# Notes to the financial statements for the year ended 31 December 2002 (continued)

## 21 Pension obligations (continued)

The valuation of the scheme assets in the Magnet Group Pension Scheme and the expected rates of return were:

| | **Long term return expected at 31 December 2002 %** | **Market value at 31 December 2002 £'000** | Long term return expected at 31 December 2001 % | Market value at 31 December 2001 £'000 |
|---|---|---|---|---|
| Equities and property | **7.0** | **49,482** | 7.5 | 61,466 |
| Corporate bonds | **5.6** | **4,467** | 6.0 | 5,606 |
| Gilts and cash | **4.5** | **27,721** | 5.0 | 24,587 |
| | | **81,670** | | 91,659 |
| Present value of scheme liabilities | | **(126,651)** | | (108,978) |
| **Deficit in the scheme** | | **(44,981)** | | (17,319) |
| Related deferred tax asset | | **13,494** | | 5,196 |
| **Net pension liability** | | **(31,487)** | | (12,123) |

If the calculated amounts had been recognised in the financial statements, the Company's net assets and profit and loss reserve at 31 December 2002 would be as follows:

| | **At 31 December 2002 £'000** | At 31 December 2001 £'000 |
|---|---|---|
| Net assets excluding pensions deficit | **33,447** | 38,500 |
| Pension provision (note 16) | **286** | 20 |
| Pensions deficit | **(31,487)** | (12,123) |
| **Net assets including pensions deficit** | **2,246** | 26,397 |
| | | |
| Profit and loss reserve excluding pensions deficit | **2,037** | 7,090 |
| Pension provision (note 16) | **286** | 20 |
| Pensions deficit | **(31,487)** | (12,123) |
| **Profit and loss reserve – adverse balance** | **(29,164)** | (5,013) |

# Notes to the financial statements for the year ended 31 December 2002 (continued)

## 21 Pension obligations (continued)

The following amounts would have been recognised in the performance statements in the year to 31 December 2002 under the requirements of FRS 17:

| | £'000 |
|---|---|
| **Operating profit** | |
| Current service cost and total operating charge | 2,546 |
| **Other finance expense** | |
| Expected return on pension scheme assets | (6,116) |
| Interest on pension scheme liabilities | 6,486 |
| Net finance expense | 370 |
| **Statement of total recognised gains and losses (STRGL)** | |
| Actual return less expected return on pension scheme assets | (14,332) |
| Experience gains and losses arising on the scheme liabilities | (5,762) |
| Changes in assumptions underlying the present value of the scheme liabilities | (7,198) |
| Actuarial loss recognised in STRGL | (27,292) |
| **Movement in deficit during the year** | |
| Deficit in scheme at beginning of the year | 17,319 |
| Movement in year: | |
| Current service cost | 2,546 |
| Contributions | (2,546) |
| Other finance expense | 370 |
| Actuarial loss | 27,292 |
| Deficit in scheme at end of the year | 44,981 |

# Notes to the financial statements for the year ended 31 December 2002 (continued)

## 21 Pension obligations (continued)

Details of experience gains and losses for the year to 31 December 2002:

| | £'000 |
|---|---|
| **Difference between the expected and actual return on scheme assets:** | |
| Amount (£'000) | **(14,332)** |
| Percentage of scheme assets | **-18%** |
| **Experience gains and losses on scheme liabilities:** | |
| Amount (£'000) | **(5,762)** |
| Percentage of the present value of the scheme liabilities | **-5%** |
| **Total amounts recognised in statement of total recognised gains and losses:** | |
| Amount (£'000) | **(27,292)** |
| Percentage of the present value of the scheme liabilities | **-22%** |

## 22 Ultimate parent undertaking

The immediate parent undertaking is Nobia Holdings UK Limited which is incorporated in England and Wales.

The ultimate parent undertaking and controlling parent company is Nobia AB, a company incorporated in Sweden, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the financial statements of Nobia AB can be obtained from the Secretary at Nobia Nordisk Bygginterior AB, Klarabergsviadukten 70, (C8) SE-10724 Stockholm Sweden.

## 23 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 wholly owned subsidiaries of Nobia AB.