**Lyreco UK Limited**

# Directors' report and financial statements

Registered number 442696

For the year ended 31 December 2007

# Contents

# Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2007

**Principal activity**

The company's principal activity continues to be the distribution of office products

**Business review**

***Background***

Lyreco UK Limited distributes office products within the UK to a diverse customer base Brand image means that the company is well placed within the marketplace and has a 6% market share

***Objectives and strategies***

The company's main objectives and strategies are focused on sales and margin growth and minimising the impact to the environment

The company's mission statement is to delight customers, be proud of what we do and grow like crazy The company's main goal is to be not only the best supplier of office products in the UK but also the biggest

***Risks and uncertainties***

The company manages any risks to the business well and does not consider that there are any material principal risks or uncertainties that will affect the company's on-going growth targets There is significant opportunity for the company to continue to grow in the future, given its market share at present

***Measurement***

The company's key performance indicators to ensure its strategies for meeting objectives are working effectively include turnover, profit before tax, margins and net assets

The company monitors sales and margin performance on a daily basis and at each monthly Board meeting a full review of all key operational indicators takes place relating to areas such as departmental productivity, average order value, lines per order, staff turnover and cost control

The Environmental Management system was audited in June 2007 by SGS and was also audited throughout the year internally The audits covered procedures, risk assessments, the program for improvement, the register of legislation, the register of significant impacts and document control

The company's impacts on the environment remain waste and pollution The improvement programs to combat this through its Environmental Management system approach therefore remain unchanged, however, the targets have been reset and new projects to focus the approaches have been set up The company reduced the amount of waste sent to landfill and increased the amount of waste either recycled or sent away for recycling to 88% A new recycling programme was implemented at the company's head office to increase recycling activity resulting in 91 4% of waste being recycled in Quarter 4 2007

***Performance during year ended 31 December 2007 and the future***

Turnover has increased by 10% from £271 million in 2006 to £298 million in 2007, mainly due to the company's on-going investment in its sales people Profit before tax and net profit margins have also increased from £27 million in 2006 to £34 million in 2007 and from 10% in 2006 to 11 4% in 2007 respectively, this has been achieved by maintaining commercial margins and focusing on minimising administrative costs

Net assets have increased year on year from £28 million in 2006 to £52 million in 2007 A dividend of £21 million was declared in quarter two 2008 based on the 2007 profits on ordinary activities before taxation

# Directors' report *(continued)*

***Performance during year ended 31 December 2007 and the future** (continued)*

The turnover for the next financial year is anticipated to exceed £345 million with net asset levels expected to be maintained

A Corporate Responsibility strategy was launched in September 2007 through the local websites, with focus on the key areas of Community, Marketplace, Environment and Workplace Other improvement targets include reduction of emissions from the fleet, through the "trade down allowance" for company cars and continued encouragement of our suppliers to become more environmentally friendly

SGS will continue to audit the company's system externally for both the environment and quality though 2008

The company has a well established and robust computer system, a storage and distribution facility that can handle anticipated growth for the next 3 years and an own-vehicle fleet that performs 97% of the company's deliveries, these will assist it to achieve its objectives and strategies in the future

**Dividends**

The directors recommend that a final ordinary dividend of £21,000,000 be paid *(2006 £22,000,000)*

**Directors**

The directors who served during the year and subsequently were as follows

E Bigeard (French)
ER Ford

**Disabled employees**

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees

**Employee consultation**

The company is committed to involving all employees in the performance and development of the company Employees are encouraged to discuss with management matters of interest to the employee and subjects affecting day to day operations of the company

**Political and charitable contributions**

The company made no political or charitable donations or incurred any political expenditure during the year

**Disclosure of information to auditors**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

# Directors' report *(continued)*

**Auditors**

The company has elected, by a resolution passed in accordance with Section 386 of the Companies Act 1985 and dated 29 October 1990, to dispense with the obligation to appoint auditors annually KPMG LLP will therefore continue in office

Approved by the board of directors and signed on its behalf by

**E Bigeard**
*Director*

Deer Park Court
Donnington Wood
Telford
Shropshire
TF2 7NB

21 May 2008

## Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practices)

The financial statements are required by law to 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 these 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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

KPMG LLP
2 Cornwall Street
Birmingham
B3 2DL

# Independent auditors' report to the members of Lyreco UK Limited

We have audited the financial statements of Lyreco UK Limited for the year ended 31 December 2007 which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds and the related notes 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 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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities on page 4

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

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 whether, in our opinion, the information given in the directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 other transactions is not disclosed

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it

***Basis of audit opinion***

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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

## Independent auditors' report to the members of Lyreco Limited *(continued)*

***Opinion***

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

KPMG LLP

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

21 May 2008

# Profit and loss account
*for the year ended 31 December 2007*

| | Note | 2007 £000 | 2006 £000 |
|---|---|---|---|
| **Turnover** | 2 | **298,449** | 270,834 |
| Net operating charges | 3 | **(266,067)** | (244,455) |
| **Operating profit** | | **32,382** | 26,379 |
| Profit on sale of fixed assets | 13 | **1** | 843 |
| Income from shares in group undertakings | 6 | **831** | - |
| Net interest receivable and similar income | 4 | **867** | 33 |
| Other finance costs | 5 | **(7)** | (30) |
| **Profit on ordinary activities before taxation** | 7 | **34,074** | 27,225 |
| Tax on profit on ordinary activities | 10 | **(10,345)** | (9,309) |
| **Profit for the financial year** | | **23,729** | 17,916 |

All amounts above relate to continuing activities

The notes on pages 11 to 25 form part of these financial statements

# Balance sheet
***at 31 December 2007***

| | Note | 2007 £000 | 2007 £000 | 2006 £000 | 2006 £000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | *12* | | - | | - |
| Tangible assets | *13* | | 19,918 | | 20,709 |
| Investments | *14* | | - | | 1,964 |
| | | | 19,918 | | 22,673 |
| **Current assets** | | | | | |
| Stocks | *15* | 17,794 | | 14,108 | |
| Debtors | *16* | 74,192 | | 74,862 | |
| Cash at bank and in hand | | 3,242 | | 45 | |
| | | 95,228 | | 89,015 | |
| **Creditors** Amounts falling due within one year | *17* | (60,705) | | (74,384) | |
| **Net current assets** | | | 34,523 | | 14,631 |
| **Total assets less current liabilities** | | | 54,441 | | 37 304 |
| **Creditors** Amounts falling due after more than one year | *18* | | - | | (6,399) |
| **Provisions for liabilities and charges** | *19* | | (442) | | (444) |
| **Net assets excluding pension liabilities** | | | 53,999 | | 30,461 |
| **Pension liabilities** | *24* | | (2,124) | | (2,424) |
| **Net assets including pension liabilities** | | | 51,875 | | 28,037 |
| **Capital and reserves** | | | | | |
| Called up share capital | *20* | | 14,841 | | 14,841 |
| Share premium account | *21* | | 6,634 | | 6.634 |
| Revaluation reserve | *21* | | 79 | | 79 |
| Profit and loss account | *21* | | 30,321 | | 6,483 |
| **Shareholders' funds** | | | 51,875 | | 28,037 |

These financial statements were approved by the board of directors on 21 May 2008 and were signed on its behalf by

**E Bigeard**
*Director*

# Cash flow statement
*for the year ended 31 December 2007*

| | Note | 2007 £000 | 2006 £000 |
|---|---|---|---|
| **Net cash inflow from operating activities** | 23 | **36,552** | 15,794 |
| **Returns on investments and servicing of finance** | 23 | **1,698** | 33 |
| **Taxation** | 23 | **(9,623)** | (8,025) |
| **Capital expenditure and financial investment** | 23 | **(1,032)** | 5,532 |
| **Dividends paid on shares classified in shareholders' funds** | | **(22,000)** | - |
| **Cash inflow before financing** | | **5,595** | 13,334 |
| **Financing** | 23 | **-** | (13,875) |
| **Increase/(decrease) in cash in the year** | 23 | **5,595** | (541) |

## Statement of total recognised gains and losses
*for the year ended 31 December 2007*

| | 2007 £000 | 2006 £000 |
|---|---|---|
| **Profit for the financial year** | **23,729** | 17,916 |
| Actuarial gain/(loss) recognised in the pension scheme (see note 24) | **240** | (19) |
| Deferred tax arising on gains/(losses) in the pension scheme | **(72)** | 6 |
| Deferred tax movement arising on the pension scheme due to tax rate change | **(59)** | - |
| **Total recognised gains and losses relating to the financial year** | **23,838** | 17,903 |

## Reconciliation of movements in shareholders' funds
*for the year ended 31 December 2007*

| | 2007 £000 | 2006 £000 |
|---|---|---|
| **Profit for the financial year** | **23,729** | 17,916 |
| Dividends on shares classified in shareholders' funds | **-** | (22,000) |
| **Retained profit/(loss) (see note 21)** | **23,729** | (4,084) |
| Other recognised gains and losses relating to the year (net) | **109** | (13) |
| **Net addition to/(reduction in) shareholders' funds** | **23,838** | (4 097) |
| Shareholders' funds at the beginning of the year | **28,037** | 32 134 |
| **Shareholders' funds at the end of the year** | **51,875** | 28,037 |

# 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

***Basis of preparation***

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

In accordance with section 229 of the Companies Act 1985, Lyreco UK Limited has not produced consolidated accounts as all subsidiary undertakings are not considered to be material when taken together These financial statements present information about the company as an individual undertaking and not about its group

***Turnover***

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, customer rebates, VAT and other sales related taxes

***Goodwill***

Goodwill arising on the acquisition of businesses, representing any excess on the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and amortised on a straight line basis over its useful economic life, which is ten years Provision is made for any impairment

***Tangible fixed assets***

Fixed assets are stated at cost, net of depreciation and any provision for impairment Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation, less estimated residual value of each asset on a straight line basis over its expected useful life, as follows

| | | |
|---|---|---|
| Freehold buildings | - | 2%-5% per annum |
| Leasehold properties and improvements | - | 10% per annum |
| Plant and machinery | - | 4%-20% per annum |
| Furniture and office equipment | - | 20% per annum |
| Motor vehicles | - | 20%-25% per annum |
| Computers | - | 20%-33 33% per annum |

During the year, the useful life of plant and machinery was re-assessed resulting in a change in the depreciation rate *(2006 20% per annum)*

Residual value is calculated on prices prevailing at the date of acquisition or revaluation

***Investments***

Fixed asset investments are shown at cost less provision for impairment

***Leases***

Rentals under operating leases are charged to the profit and loss account on a straight line basis over the lease term

***Stocks***

Stocks are stated at the lower of cost and net realisable value Net realisable value is based on estimated selling price, less further costs to disposal Provision is made for obsolete, slow moving or defective items where appropriate

# Notes *(continued)*

## 1 Accounting policies *(continued)*

***Taxation***

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred taxation 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 'Deferred Tax'

***Pension costs and other post retirement benefits***

The company operates a defined benefit scheme in the UK Pension scheme assets are measured using market values Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality bond of equivalent term and currency to the liability

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full The movement of the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses

The company also operates a defined contribution scheme, the amount charged to the profit and loss account in respect of pension costs and other post retirement benefits is the contributions payable to the scheme in respect of the accounting period Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet

Assets of each of the schemes are held separately from those of the company

***Foreign currencies***

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account

***Dividends on shares presented with shareholders' funds***

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements

***Cash and liquid resources***

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand

## 2 Turnover

In the opinion of the directors, there is only one class of business, which is the distribution of office products All turnover was derived in the United Kingdom

# Notes *(continued)*

## 3 Net operating charges

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Change in stocks of finished goods | **(3,686)** | (1,604) |
| Purchases | **183,401** | 170,038 |
| Staff costs | | |
| Wages and salaries | **42,030** | 39,436 |
| Social security costs | **4,264** | 4,045 |
| Other pension costs | **751** | 706 |
| Depreciation, amortisation and impairment | **3,788** | 5,094 |
| Other operating charges | **35,519** | 26,740 |
| | **266,067** | 244,455 |

## 4 Net interest receivable and similar income

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Interest payable and similar charges | | |
| On bank loans and overdrafts | **46** | 634 |
| Inter-company interest | **2,838** | 1,075 |
| | **2,884** | 1 709 |
| Other interest receivable and similar income | | |
| Bank and similar interest | **45** | 129 |
| Inter-company interest | **3,706** | 1,613 |
| | **3,751** | 1,742 |
| Net interest receivable and similar income | **867** | 33 |

## 5 Other finance costs

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Expected return on pension scheme assets | **(452)** | (397) |
| Interest on pension scheme liabilities | **459** | 427 |
| | **7** | 30 |

## 6 Income from shares in group undertakings

As explained in note 14 the company is in the process of liquidating its dormant subsidiaries The amount received, through dividends, in the year due to this process was £831,000 *(2006 £Nil)*

# Notes *(continued)*

## 7 Notes to the profit and loss account

| | 2007 £000 | 2006 £000 |
|---|---|---|
| ***Profit on ordinary activities before taxation is stated*** | | |
| *after charging* | | |
| Depreciation of owned fixed assets | **1,824** | 3,129 |
| Operating lease rentals | | |
| Plant and machinery | **60** | 69 |
| Other | **4,768** | 5,033 |
| *Auditors' remuneration* | | |
| Amounts receivable by the auditors and their associates in respect of | | |
| Audit of these financial statements | **38** | 35 |
| Other services | **57** | 56 |

## 8 Directors' remuneration

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Emoluments | **115** | 141 |
| Pension contributions | **7** | 7 |
| | **122** | 148 |

The number of directors who are members of pension schemes at the end of the year is as follows

| | Number | |
|---|---|---|
| Money purchase schemes | **1** | 1 |

## 9 Staff numbers

The average number of persons employed by the company (including directors) during the year was as follows

| | Number of employees | |
|---|---|---|
| | **2007** | 2006 |
| Management and administration | **255** | 254 |
| Distribution and sales | **1,608** | 1,529 |
| | **1,863** | 1 783 |

# Notes *(continued)*

## 10 Tax on profit on ordinary activities

***Analysis of charge in the periods***

| | 2007 £000 | 2006 £000 |
|---|---|---|
| *Current tax* | | |
| UK corporation tax on income for the period | **10,736** | 9,090 |
| Adjustments in respect of prior periods | **(471)** | 282 |
| Total current tax | **10,265** | 9,372 |
| *Deferred tax* | | |
| Origination/reversal of timing differences | **114** | (107) |
| Adjustments in respect of prior periods | **(448)** | 44 |
| Effect of change in tax rate | **414** | - |
| Total deferred tax (see note 19) | **80** | (63) |
| Tax on profit on ordinary activities | **10,345** | 9,309 |

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

The current tax charge for the period is higher *(2006 higher)* than the 30% standard rate of corporation tax in the UK *(2006 30%)* The differences are explained below

| | 2007 £000 | 2006 £000 |
|---|---|---|
| *Current tax reconciliation* | | |
| Profit on ordinary activities before tax | **34,074** | 27 225 |
| Current tax at 30% *(2006 30%)* | **10,222** | 8 168 |
| *Effects of* | | |
| Expenses not deductible for tax purposes | **796** | 177 |
| Profit on disposal of ineligible asset | **-** | (253) |
| Capital allowances for period (in excess of)/less than depreciation | **(32)** | 146 |
| Adjustments in respect of prior periods | **(471)** | 282 |
| Depreciation on assets not qualifying for capital allowances | **81** | 297 |
| Decrease in other timing differences | **-** | (40) |
| Pension scheme timing differences | **(82)** | 1 |
| Impairment of investments | **-** | 589 |
| UK dividends not taxable | **(249)** | - |
| Utilisation of tax losses | **-** | 5 |
| Total current tax charge (see above) | **10,265** | 9,372 |

***Factors that may affect future current and total tax charges***

It has been announced that the corporation tax rate applicable to the company will change from 30% to 28% from 1 April 2008

# Notes *(continued)*

## 11 Dividends

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Dividends in respect of the year recognised as a liability at the year end | - | 22,000 |

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is £21,000,000 *(2006 £Nil)*

## 12 Intangible fixed assets

| | Goodwill £000 |
|---|---|
| ***Cost*** | |
| At beginning and end of year | 450 |
| ***Amortisation*** | |
| At beginning and end of year | 450 |
| ***Net book value*** | |
| **At 31 December 2007 and at 31 December 2006** | - |

The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises Goodwill is amortised over 10 years

## 13 Tangible fixed assets

| | Land and buildings £000 | Plant, machinery and computers £000 | Motor vehicles, fixtures and fittings £000 | Total £000 |
|---|---|---|---|---|
| ***Cost*** | | | | |
| At beginning of year | 23,936 | 8,883 | 1,722 | 34,541 |
| Additions | 652 | 363 | 20 | 1 035 |
| Disposals | - | (6) | (46) | (52) |
| At end of year | 24,588 | 9,240 | 1,696 | 35,524 |
| ***Depreciation*** | | | | |
| At beginning of year | 5,953 | 6,754 | 1,125 | 13,832 |
| Charge for the year | 1,143 | 639 | 42 | 1 824 |
| Disposals | - | (4) | (46) | (50) |
| At end of year | 7,096 | 7,389 | 1,121 | 15 606 |
| ***Net book value*** | | | | |
| **At 31 December 2007** | **17,492** | **1,851** | **575** | **19,918** |
| At 31 December 2006 | 17,983 | 2,129 | 597 | 20,709 |

# Notes *(continued)*

## 13 Tangible fixed assets *(continued)*

The net book value of land and buildings comprises

| | **2007** | 2006 |
|---|---|---|
| | **£000** | £000 |
| Freehold land and buildings | **17,492** | 17,943 |
| Short leasehold improvements | **30** | 40 |
| | **17,522** | 17,983 |

Freehold land and buildings includes non-depreciable land of £2,790,000 *(2006 £2,790,000)*

During 2006, the company disposed of freehold land and buildings with a net book value of £5,068,000 giving a profit on disposal of £843,000

## 14 Fixed asset investments

| | **Shares in group undertakings £000** |
|---|---|
| ***Cost*** | |
| At beginning of year | 7,110 |
| Disposal | (300) |
| At end of year | 6,810 |
| ***Provisions*** | |
| At beginning of year | 5 146 |
| Impairment losses | 1,964 |
| Disposal | (300) |
| At end of year | 6,810 |
| ***Net book value*** | |
| **At 31 December 2007** | **-** |
| At 31 December 2006 | 1,964 |

The principal companies in which the company's interest at the year end is more than 20% are as follows

| | **Principal activity** | **Country of incorporation** | **Percentage and class of shares held** |
|---|---|---|---|
| O T T Fire One Financial Limited (formerly Office International Limited) | Dormant | England and Wales | 100% £1 ordinary shares |
| Copyless Limited | Dormant | England and Wales | 100% £1 ordinary shares |
| Ace Stationery Limited | Dormant | England and Wales | 100% £1 ordinary shares |
| R L E Laundry Co Limited (formerly Lyreco Arundel Limited) | Dormant | England and Wales | 100% £1 ordinary shares |
| Statigraf Limited | Dormant | England and Wales | 100% £1 ordinary shares |

# Notes *(continued)*

## 14 Fixed asset investments *(continued)*

The following were in liquidation at the year end or subsequently

| Company | Date of liquidator appointment |
|---|---|
| European Stationers Limited | 21 December 2007 |
| Statigraf Limited | 10 January 2008 |
| Copyless Limited | 12 February 2008 |

## 15 Stocks

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Goods for resale | 17,794 | 14,108 |

There is no material difference between the balance sheet value of stocks and their replacement cost

## 16 Debtors

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Amounts falling due within one year | | |
| Trade debtors | 46,720 | 46 402 |
| Amounts owed by group undertakings | 22,069 | 23,381 |
| Prepayments and accrued income | 5,403 | 5 079 |
| | 74,192 | 74.862 |

## 17 Creditors: Amounts falling due within one year

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Bank loan and overdraft | - | 2 398 |
| Trade creditors | 40,563 | 34,594 |
| Amount owed to group undertakings | 5,776 | 1,721 |
| Corporation tax | 5,333 | 4,691 |
| Other taxation and social security | 3,015 | 3,056 |
| Accruals and deferred income | 6,018 | 5,924 |
| Dividends payable | - | 22,000 |
| | 60,705 | 74,384 |

The bank overdraft is secured by a fixed and floating charge over the assets of the company and its subsidiaries

## 18 Creditors: Amounts falling due after more than one year

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Amounts owed to group undertakings | - | 6,399 |

# Notes *(continued)*

## 19 Deferred taxation

| | £000 |
|---|---|
| At beginning of year | (595) |
| Charge to profit and loss account for the year | 80 |
| Credit to the statement of total recognised gains and losses for the year | 131 |
| **At end of year** | **(384)** |

*Analysis of deferred tax balances*

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Deferred tax liability, excluding deferred tax on pension deficit, included in provisions for liabilities and charges | **442** | 444 |
| Deferred tax asset on pension deficit – included in pension liability (see note 24) | **(826)** | (1,039) |
| | **(384)** | (595) |

The elements of deferred tax included in provisions for liabilities and charges are as follows

| | £000 | £000 |
|---|---|---|
| Accelerated capital allowances | **449** | 444 |
| Other timing differences | **(7)** | - |
| | **442** | 444 |

## 20 Called up share capital

| | 2007 £000 | 2006 £000 |
|---|---|---|
| ***Authorised:*** | | |
| 14,885,000 ordinary shares of £1 each | **14,885** | 14,885 |
| ***Allotted, called up and fully paid:*** | | |
| 14,841,100 ordinary shares of £1 each | **14,841** | 14 841 |

## 21 Reserves

| | Share premium account £000 | Revaluation reserve £000 | Profit and loss account £000 | Total £000 |
|---|---|---|---|---|
| At beginning of year | 6,634 | 79 | 6 483 | 13,196 |
| Retained profit for the year | - | - | 23,729 | 23,729 |
| Actuarial gain recognised in the pension scheme | - | - | 240 | 240 |
| Deferred tax arising on gains in the pension scheme | - | - | (72) | (72) |
| Deferred tax arising due to tax rate change | - | - | (59) | (59) |
| **At end of year** | **6,634** | **79** | **30,321** | **37,034** |

# Notes *(continued)*

## 21 Reserves *(continued)*

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Profit and loss account excluding pension liability | **32,445** | 8,907 |
| Pension liability | **(2,124)** | (2,424) |
| Profit and loss account including pension liability | **30,321** | 6,483 |

## 22 Contingent liabilities and other financial commitments

(a) There were capital commitments at the year end totalling £236,000 *(2006 £Nil)*

(b) The company has provided two £50,000 performance bonds to Barclays Bank PLC

(c) Annual commitments under non-cancellable operating leases are as follows

| | Land and buildings | | Other | |
|---|---|---|---|---|
| | **2007 £000** | 2006 £000 | **2007 £000** | 2006 £000 |
| Leases expiring | | | | |
| Within one year | **1,177** | 106 | **3,651** | 1,143 |
| Between two and five years | **715** | 888 | **3,991** | 3,108 |
| | **1,892** | 994 | **7,642** | 4,251 |

## 23 Cash flow information

### *(a) Reconciliation of operating profit to operating cash flow*

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Operating profit | **32,382** | 26,379 |
| Depreciation and amortisation charges | **3,788** | 5,094 |
| Increase in stocks | **(3,686)** | (1,604) |
| Decrease/(increase) in debtors | **670** | (25,085) |
| Increase in creditors | **3,678** | 11,037 |
| Cash funding in excess of pension charge | **(280)** | (27) |
| Net cash inflow from operating activities | **36,552** | 15,794 |

# Notes *(continued)*

## 23 Cash flow information *(continued)*

### *(b) Analysis of cash flows*

| | 2007<br>£000 | 2006<br>£000 |
|---|---|---|
| **Returns on investments and servicing of finance** | | |
| Interest received | **3,751** | 1,742 |
| Interest paid | **(2,884)** | (1,709) |
| Dividends received | **831** | - |
| Net cash inflow | **1,698** | 33 |
| **Taxation** | | |
| UK corporation tax paid | **(9,623)** | (8,025) |
| **Capital expenditure and financial investment** | | |
| Sale of tangible fixed assets | **3** | 5,911 |
| Purchase of tangible fixed assets | **(1,035)** | (379) |
| Net cash (outflow)/inflow | **(1,032)** | 5 532 |
| **Financing** | | |
| Bank loan | - | (13 875) |

### *(c) Analysis and reconciliation of net debt*

| | 1 January 2007<br>£000 | Cash flow<br>£000 | **31 December 2007**<br>**£000** |
|---|---|---|---|
| Cash in hand, at bank | 45 | 3,197 | **3,242** |
| Overdrafts | (2,398) | 2,398 | - |
| Total | (2,353) | 5,595 | **3,242** |

| | 2007<br>£000 | 2006<br>£000 |
|---|---|---|
| Increase/(decrease) in cash in the year | **5,595** | (541) |
| Cash inflow from movement in debt | - | 13,875 |
| Decrease in net debt in year | **5,595** | 13 334 |
| Net debt at beginning of year | **(2,353)** | (15,687) |
| Net funds/(debt) at end of year | **3,242** | (2,353) |

# Notes *(continued)*

## 24 Pension arrangements

The company provides pension arrangements to the majority of full time employees through a funded defined contribution scheme The company also operates a defined benefit scheme which was closed to new members in April 1997 and to existing members on 28 February 2006 Current service costs will therefore increase The assets of the pension arrangements are held in a separate trustee administered fund, which incorporates the defined contribution and the defined benefit assets and liabilities The related costs of the benefits are assessed in accordance with the advice of an independent, professionally qualified actuary, on the basis of triennial valuations

The costs of the defined contribution scheme are charged to the profit and loss account in the period in which they are incurred

The pension cost charge for the year for the defined contribution scheme was £599,000 *(2006 £487,000)* There are no outstanding or prepaid contributions at either the beginning or end of the financial year

Scheme valuations have been updated by a qualified independent actuary on an FRS 17 basis as at 31 December 2007, 31 December 2006 and 31 December 2005 The major assumptions used in this valuation were

The major assumptions used in this valuation were

| | **2007 Per annum %** | 2006 Per annum % | 2005 Per annum % |
|---|---|---|---|
| Rate of increase in salaries | **n/a** | n/a | n/a |
| Rate of increase in pensions in payment | **3 20** | 2 95 | 2 75 |
| Rate used to discount scheme liabilities | **5 60** | 4 90 | 4 90 |
| Inflation assumption | **3.40** | 3 10 | 2 90 |

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice

### *Scheme assets*

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and this inherently uncertain, were

| | **Fair value at 31 December 2007 £000** | **Long term expected rate of return %** | Fair value at 31 December 2006 £000 | Long term expected rate of return £000 | Fair value at 31 December 2005 £000 | Long term expected rate of return £000 |
|---|---|---|---|---|---|---|
| Equities | **5,353** | **8 0** | 5,008 | 8 0 | 4,487 | 8 0 |
| Bonds | **531** | **5 2** | 437 | 4 8 | 393 | 4 6 |
| Cash | **528** | **5.5** | 553 | 5 0 | 453 | 4 5 |
| Total market value of scheme assets | **6,412** | | 5,998 | | 5 333 | |
| Present value of scheme liabilities | **(9,362)** | | (9 461) | | (8,774) | |
| Deficit in the scheme – pension liability | **(2,950)** | | (3,463) | | (3,441) | |
| Associated deferred tax asset | **826** | | 1,039 | | 1,032 | |
| Net pension liability | **(2,124)** | | (2,424) | | (2,409) | |

# Notes *(continued)*

## 24 Pension arrangements *(continued)*

*Movement in deficit during the year*

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Deficit in scheme at beginning of year | (3,463) | (3,441) |
| Current service cost | (152) | (219) |
| Contributions paid | 432 | 246 |
| Other finance cost | (7) | (30) |
| Actuarial gain/(loss) | 240 | (19) |
| **Deficit in scheme at end of year** | (2,950) | (3,463) |

*Analysis of amount recognised in statement of total recognised gains and losses*

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Actual return less expected return on scheme assets | (113) | 286 |
| Experience gains and losses arising on scheme liabilities | 65 | (25) |
| Changes in assumptions underlying the present value of scheme liabilities | 288 | (280) |
| Actuarial gain/(loss) recognised in statement of total recognised gains and losses | 240 | (19) |

*History of experience gains and losses*

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| **Difference between the expected and actual return on scheme assets** | | | | | |
| Amount (£000) | (113) | 286 | 613 | 89 | 336 |
| % of scheme assets at end of year | (1 8%) | 4 8% | 11 5% | 2 1% | 9 0% |
| **Experience gains and losses on scheme liabilities** | | | | | |
| Amount (£000) | 65 | (25) | 180 | 70 | 119 |
| % of scheme liabilities at end of year | 0 7% | (0 3%) | 2 0% | 1 0% | 1 9% |
| **Total amount recognised in the statement of total recognised gains and losses** | | | | | |
| Amount (£000) | 240 | (19) | (627) | (509) | (442) |
| % of present value of scheme liabilities at end of year | 2 6% | (0 2%) | (7 1%) | (7 0%) | (7 1%) |

# Notes *(continued)*

## 25 Related party disclosures

The related parties with which the company traded during the year or with whom there were outstanding assets or liabilities at the year end were as follows All related parties represent group companies

Lyreco SAS

Lyreco Management SAS

Lyreco (Hong Kong) Company Ltd

Suministros Integrales de Oficina

Lyreco Canada

Lyreco Italia SPA

Lyreco Belgium S A

Lyreco Benelux

Lyreco Nederland B V

Holding Lyreco Benelux

Lyreco Polska S A

Lyreco Sverige AB

Lyreco Denmark (Barfod)

Lyreco Ireland Ltd

Lyreco Deutschland GmbH

Lyreco France SAS

Lyreco (Thailand) Co, Ltd

Lyreco Pty Ltd

Lyreco AG

Brandex Oy

Lyreco Austria

Lyreco CE SE

Lyreco Arundel Ltd

Statigraf Ltd

European Stationers Ltd

Copyless Ltd

Sales of goods and services to related parties during the year were £3,885,000 *(2006 £3,524,000)*

Purchases of goods and services from related parties during the year were £8,768,000 *(2006 £7,976,000)*

Management charges from related parties during the year were £3,828,000 *(2006 £3,924,000)*

## 26 Ultimate parent company

The immediate parent company is Holdings Lyreco Internationale, a company incorporated in France The smallest and largest group into which the results of the company are consolidated is that of Lyreco SAS, a company incorporated in France

The directors consider Lyreco SAS as the ultimate controlling party

The consolidated financial statements of Lyreco SAS are not available to the public

# Notes *(continued)*

## 27 Post balance sheet events

Following the year end, the directors proposed a dividend of £21,000,000 be paid in relation to the year ended 31 December 2007

On 31 January 2008, Copyless Limited paid a dividend to Lyreco UK prior to the planned liquidation of Copyless Limited