

Mallatite Limited

**Directors' report and financial
statements**

Registered number 2621328

For the year ended 31 December 2003



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Directors' report

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

Principal activity

The principal activity of the company is the fabrication of street lighting columns and metal posts for road traffic signs and the supply of supporting electrical equipment.

Business review and future developments

The company had a more difficult year than 2002 with sharp rises in raw material costs and increased competition in the marketplace. In addition, the company experienced a major plant failure which resulted in a lost contribution in excess of £100,000.

The changes in the management team made last year are having a positive effect and the directors are happy to report that the company is in a strong market position and all areas of the business are busy.

Several long term contracts, including three PFI's, were won in 2003 and several other PFI's will be offered to tender during 2004, which the company is in a good position to win.

New products and processes should strengthen the company's market position and financial performance still further in 2004.

On 1 January 2003, the company acquired the business and assets of Mallatite (Scotland) Limited and Mallatite Powder Coatings Limited.

Dividends

No dividend is proposed for the year ended 31 December 2003 (*period ended 31 December 2002: £Nil*).

Directors and directors' interests

The directors serving during the year and subsequently were as follows:

JT Bowden	(resigned 1 December 2003)
CD Fisher	(resigned 1 December 2003)
RF Bowman	(resigned 19 January 2004)
A Paterson	
MA Cooper	
DL Grove	
DW Muir	
CJ Burr	
PW Seubert	(appointed 19 January 2004)
RJ Harmstone	(appointed 1 December 2003)

None of the directors who held office at the end of the financial year had any beneficial interest in the shares of the company.

Mr DL Grove and Mr CJ Burr are directors of the ultimate holding company, Hill & Smith Holdings PLC, and their interests in the shares and share options of that company, are shown in its financial statements.

The interests of the other directors in office at the end of the year in the shares and share options of Hill & Smith Holdings PLC, are detailed as follows:

Shares

	2003	2002
MA Cooper	3,360	3,360

Directors' report *(continued)*

Directors and directors' interests *(continued)*

Share options

	At beginning and end of year	Exercise price P	Date exercisable	Expiry date	Note no
MA Cooper					
	19,360	112.5	23.01.98	23.01.05	1
	9,000	68.5	04.08.02	04.08.09	3
	2,000	66.0	21.01.05	21.01.09	4
	13,000	66.0	21.01.05	21.01.09	4
	<hr/> 43,360 <hr/>				
DW Muir					
	19,360	112.5	23.01.98	23.01.05	1
	20,000	68.5	04.08.02	04.08.06	4
	10,000	68.5	04.08.02	04.08.09	3
	8,855	41.3	01.03.04	01.09.04	2
	110,000	66.0	21.01.05	21.01.09	4
	<hr/> 168,215 <hr/>				

Note 1: These options were granted under the 1985 Executive Share Option Scheme

Note 2: These options were granted under the 1995 Savings Related Share option Scheme

Note 3: These options were granted under the 1995 Executive Share Option Scheme

Note 4: These options were granted under the 1999 Unapproved Executive Share Option Scheme

Auditor

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc is to be proposed at the forthcoming annual general meeting.

By order of the Board

CJ Burr
Secretary

2 Highlands Court
Cranmore Avenue
Shirley
Solihull
West Midlands
B90 4LE

16 March 2004

Statement of directors' responsibilities

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 for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG Audit Plc

2 Cornwall Street
Birmingham
B3 2DL
United Kingdom

Independent auditor's report to the members of Mallatite Limited

We have audited the financial statements on pages 5 to 15.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

16 March 2004

Profit and loss account
for the year ended 31 December 2003

	<i>Note</i>	Year ended 31 December 2003 £000	16 months ended 31 December 2002 £000
Turnover	2	11,699	9,126
Cost of sales		(10,153)	(8,153)
		<hr/>	<hr/>
Gross profit		1,546	973
Distribution costs		(589)	(435)
Administration expenses		(1,338)	(605)
Other operating income		-	84
		<hr/>	<hr/>
Operating (loss)/profit	3	(381)	17
Interest payable	6	(28)	(183)
		<hr/>	<hr/>
Loss on ordinary activities before taxation		(409)	(166)
Tax on loss on ordinary activities	7	278	7
		<hr/>	<hr/>
Loss for the financial period	16	(131)	(159)
		<hr/>	<hr/>


All amounts relate to continuing operations other than the acquisition detailed in note 19.

There is no material difference between the results as shown in the profit and loss account and their historical cost equivalents.

Balance sheet
as at 31 December 2003

	<i>Note</i>	2003 £000	2002 £000	£000
Fixed assets				
Tangible assets	8	2,093		1,913
Current assets				
Stocks	10	1,776	1,452	
Debtors	11	1,959	963	
Cash at bank and in hand		11	493	
		3,746	2,908	
Creditors: amounts falling due within one year	12	(5,212)	(4,090)	
Net current liabilities		(1,466)		(1,182)
Total assets less current liabilities		627		731
Creditors: amounts falling due after more than one year	13	(55)		(49)
Provisions for liabilities and charges	14	(142)		(121)
Net assets		430		561
Capital and reserves				
Called up share capital	15	267		267
Share premium account	16	35		35
Revaluation reserve	16	231		245
Capital redemption reserve	16	134		134
Profit and loss account	16	(237)		(120)
Equity shareholder's funds		430		561

These financial statements were approved by the board of directors on 16 March 2004 and signed on its behalf by:


RJ Harmstone
Director


MA Cooper
Director

Statement of recognised gains and losses
for the year ended 31 December 2003

	Year ended 31 December 2003 £000	16 months ended 31 December 2002 £000
Loss for the year, being total recognised gains and losses relating to the financial year	(131)	(159)

Reconciliation of movement in shareholder's funds
for the year ended 31 December 2003

	Year ended 31 December 2003 £000	16 months ended 31 December 2002 £000
Loss for the financial period	(131)	(159)
Issue of shares	-	43
Decrease in shareholder's funds	(131)	(116)
Opening shareholder's funds	561	677
Closing shareholder's funds	430	561

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 financial statements:

Basis of accounting

The financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings and in accordance with applicable Accounting Standards.

The company has followed the transitional provisions of FRS 15: *Tangible fixed assets* to retain the book value of freehold land and buildings, certain of which had been revalued from their historic cost.

Consolidation

The company is exempt under Section 228 of the Companies Act 1985 from preparing group financial statements as a consequence of its inclusion in the group financial statements of its ultimate parent undertaking, Hill & Smith Holdings PLC. These financial statements therefore present information about the individual company rather than Mallatite Limited Group as a whole.

Cash flow statement

Under Financial Reporting Standard 1 (revised 1996) the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Stocks

The valuation is at cost or net realisable value whichever is lower. Cost is represented by cost of materials plus applicable factory overhead. Net realisable value is the actual or estimated selling price less all further costs to complete and less selling and distribution expenses.

Depreciation

Depreciation on fixed assets is provided so as to write off the cost or valuation less estimated residual value by the straight-line method over their estimated useful lives, as follows:

Freehold land and buildings	-	50 years
Plant and equipment	-	10 years
Motor vehicles	-	4 years

No depreciation is provided on assets in course of construction.

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.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date.

All exchange differences are dealt with through the profit and loss account.

Pensions

The Mallatite sub-group operates a defined contribution pension scheme, the amounts of which are held separately from those of the group in an independently administered fund. The amount charged against profits represents contributions payable to the scheme in respect of the accounting period.

Notes (continued)

1 Accounting policies (continued)

Leased assets

Assets held under leases which confer rights and obligations similar to those attaching to owned assets are capitalised as tangible fixed assets and the corresponding liability to pay rentals is shown net of interest in the accounts as obligations under finance leases. Interest is calculated on the reducing balance basis and is charged over the period of the lease.

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

2 Turnover

The turnover is the total amount receivable by the company (excluding VAT) in the ordinary course of business for goods sold to third parties and all relates to the United Kingdom.

3 Operating (loss)/profit

	Year ended 31 December 2003 £000	16 months ended 31 December 2002 £000
<i>Operating (loss)/profit is stated</i>		
<i>after charging/(crediting)</i>		
Operating leases		
Hire of plant and machinery	140	130
Other leases	53	23
Amounts payable to the auditor in respect of audit services	12	20
Depreciation:		
Owned assets	136	123
Assets held under hire purchase or finance lease contracts	56	51
Disposal of fixed assets	(5)	6
Write off of development costs	-	99

4 Remuneration of directors

	Year ended 31 December 2003 £000	16 months ended 31 December 2002 £000
Emoluments	241	97
Payments to defined contribution pension scheme	52	-
	<u>293</u>	<u>97</u>

Number of directors

Number of directors exercising share options	-	4
Defined contribution pension scheme	2	1

Directors' interests and options in the ultimate parent company are disclosed in the directors' report.

The remuneration of the highest paid director, excluding pension contributions, was £60,000. His accrued pension entitlement per annum at the year end was £18,733.

Notes (continued)

5 Staff numbers and costs

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

	Number of employees Year ended 31 December 2003	16 months ended 31 December 2002
Production	111	90
Administration	10	12
Sales and distribution	10	8
	<u>131</u>	<u>110</u>

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	2,501	2,576
Social security costs	245	244
Other pension costs	64	57
	<u>2,810</u>	<u>2,877</u>

6 Interest payable and similar charges

	Year ended 31 December 2003 £000	16 months ended 31 December 2002 £000
On bank loans and overdrafts	-	60
Hire purchase and finance lease interest	28	33
On other loans	-	90
	<u>28</u>	<u>183</u>

7 Tax on loss on ordinary activities

Analysis of credit in year

	Year ended 31 December 2003 £000	16 months ended 31 December 2002 £000
<i>UK corporation tax</i>		
Current tax on loss for the year	(299)	(50)
Total current tax	<u>(299)</u>	<u>(50)</u>
<i>Deferred tax (see note 14)</i>		
Origination/reversal of timing differences	31	4
Adjustment in respect of previous years	(10)	39
	<u>(278)</u>	<u>(7)</u>

Notes (continued)

7 Tax on loss on ordinary activities (continued)

Factors affecting the tax credit for the current year

The current tax credit for the year is higher than (period ended 31 December 2002: equal to) the standard rate of corporation tax in the UK of 30% (period ended 31 December 2002: 30%). The differences are explained below.

	Year ended 31 December 2003 £000	16 months ended 31 December 2002 £000
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(409)	(166)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (period ended 31 December 2002: 30%)	(123)	(50)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	14	11
Capital allowances for period in excess of depreciation	(31)	(4)
Research and development credit	-	(7)
Amounts receivable for loss surrenders in excess of 30%	(159)	-
Total current tax credit (see above)	(299)	(50)

8 Tangible fixed assets

	Freehold land and buildings £000	Plant, equipment and vehicles £000	Total £000
<i>Cost or valuation</i>			
At beginning of year	1,013	2,036	3,049
Additions	7	360	367
Disposals	-	(103)	(103)
Group transfers in	-	62	62
At end of year	1,020	2,355	3,375
<i>Depreciation</i>			
At beginning of year	41	1,095	1,136
Charged in year	21	171	192
Disposals	-	(98)	(98)
Group transfers in	-	52	52
At end of year	62	1,220	1,282
<i>Net book value</i>			
At 31 December 2003	958	1,135	2,093
At 31 December 2002	972	941	1,913

Assets held under finance leases and hire purchase have a net book value of £245,000 (2002: £244,000). The depreciation charge for the year on these assets was £56,000 (2002: £51,000).

Notes (continued)

8 Tangible fixed assets (continued)

Asset revaluations

The freehold land and buildings were revalued on 28 September 2000 at £882,000 by Lambert Smith Hampton, Chartered Surveyors, on the basis of an open market valuation for existing use.

The amount of revalued property as determined according to the historic cost accounting rule is:

	2003 £000	2002 £000
Cost	353	353
Depreciation	(111)	(102)
	<hr/>	<hr/>
Net book value	242	251
	<hr/>	<hr/>

9 Fixed asset investments

The company holds share capital in the following companies:

Subsidiary undertaking	Class of share	Proportion held	Nature of business
Mallatite (Scotland) Limited	Ordinary	100%	Distribution of lighting columns and electrical fittings (now dormant)
Mallatite Powder Coatings Limited	Ordinary	100%	Distribution of powder coatings (now dormant)

10 Stocks

	2003 £000	2002 £000
Raw materials and consumables	827	818
Work in progress	23	34
Finished goods	926	600
	<hr/>	<hr/>
	1,776	1,452
	<hr/>	<hr/>

11 Debtors

	2003 £000	2002 £000
Trade debtors	1,623	807
Amounts owed by group undertakings	-	106
Corporation tax recoverable	296	50
Prepayments	40	-
	<hr/>	<hr/>
	1,959	963
	<hr/>	<hr/>

Notes (continued)

12 Creditors: amounts falling due within one year

	2003 £000	2002 £000
Obligations under finance leases and hire purchase contracts	34	48
Trade creditors	2,050	1,484
Amounts owed to group undertakings	2,673	2,275
Other creditors	303	283
Accruals and deferred income	152	-
	<u>5,212</u>	<u>4,090</u>

13 Creditors: amounts falling due after more than one year

	2003 £000	2002 £000
Obligations under finance leases and hire purchase contracts	55	49

Obligations under hire purchase and finance lease contracts fall due for repayment as follows:

Within one year	34	48
In the second to fifth year	55	49
	<u>89</u>	<u>97</u>

Obligations under hire purchase and finance lease contracts are secured on the assets to which they relate.

14 Provisions for liabilities and charges

	Deferred taxation £000
At beginning of year	121
Profit and loss account	21
	<u>142</u>

At end of year

	Year ended 31 December 2003 £000	16 months ended 31 December 2002 £000
Difference between accumulated depreciation, amortisation and capital allowances	<u>142</u>	<u>121</u>

Notes (continued)

15 Called up share capital

	2003 Number	£000	2002 Number	£000
<i>Authorised</i>				
<i>Equity shares</i>				
Ordinary shares of £1 each	276,878	277	276,878	277
"A" ordinary shares of £1 each	36,113	36	36,113	36
"B" ordinary shares of £1 each	72,009	72	72,009	72
		<u>385</u>		<u>385</u>
<i>Allotted, called up and fully paid</i>				
<i>Equity shares</i>				
Ordinary shares of £1 each	159,378	159	159,378	159
"A" ordinary shares of £1 each	34,078	34	34,078	34
"B" ordinary shares of £1 each	74,044	74	74,044	74
		<u>267</u>		<u>267</u>

The ordinary shares, "A" ordinary shares and "B" ordinary shares rank pari passu in all respects.

16 Reserves

	Share premium account £000	Capital redemption reserve £000	Revaluation reserve £000	Profit and loss account £000
At beginning of year	35	134	245	(120)
Loss for the year	-	-	-	(131)
Transfer between reserves	-	-	(14)	14
At end of year	<u>35</u>	<u>134</u>	<u>231</u>	<u>(237)</u>

17 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	Other assets 2003 £000	2002 £000
Leases which expire Between two and five years	<u>176</u>	<u>88</u>

18 Pension scheme

The pension cost for the period was £64,000 (period ended 31 December 2002: £57,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial period.

Notes (continued)

19 Acquisition of business

On 1 January 2003, the trade and certain assets and liabilities of Mallatite (Scotland) Limited and Mallatite Powder Coatings Limited, fellow group subsidiaries, were transferred to Mallatite Limited at net book values, being the directors' estimate of their fair value. Details of the transfer are included below:

	£000
Tangible assets	10
Stock	279
Creditors	(896)
	<hr/>
	(607)
	<hr/>

Consideration for the transfer was settled by way of intra-group current accounts. The net liabilities were transferred at book value and, therefore, no goodwill arose.

The results of the business transferred to the company from Mallatite (Scotland) Limited and Mallatite Powder Coatings Limited on 1 January 2003 have not been separately disclosed since the directors manage the business as one and their results are not separately identifiable.

20 Related party transactions

The company has taken advantage of the exemption available under FRS 8: *Related party transactions* not to disclose transactions that have been made between the company and other fellow subsidiaries of Hill & Smith Holdings PLC.

21 Ultimate parent company

The company is a wholly-owned subsidiary of Hill & Smith Holdings PLC, a company registered in England. Copies of the group financial statements may be obtained from group headquarters:

2 Highlands Court
Cranmore Avenue
Shirley
Solihull
West Midlands
B90 4LE