

Rivendell Europe Limited

**Directors' report and financial
statements**

Registered number 3374815

30 September 2001



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 2001.

Principal activities

The principal activities of the company are the supply of artwork and reprographic services to the mail order and packaging markets.

Business review

During the year, there was an improvement in operating profit before exceptional write-offs, as the improvements to the production processes implemented over the past two years became fully operational and capacity increases were seen.

Sales turnover grew 20% with the consolidation of existing accounts and the development of new accounts continuing successfully.

Fixed asset investment during the next two years is programmed to continue, although the emphasis has shifted to modifications to the existing processes designed to improve capacity rather than the structural changes to the production process that have been necessary previously. There was an internal re-organisation of the overheads within the business during summer 2001 resulting in a reduced cost base moving forward.

During the year, the sister company Rialto Europe Limited was closed, which led to the write-off of the inter-company balances due from them. Following the year-end, the reorganisations were completed with the closure of the other sister company to Rivendell – Dorset Printers (Glasgow) Limited. These changes have had a one-off impact on the profit and loss of Rivendell, leading the business to report losses for the current year, but leaves the business stronger moving forward as it concentrates on its core business. During the post year-end period, the restructuring has been completed and additional shareholder investment funds identified to strengthen the position of the business after accounting for the intra-group adjustments.

Trading for the year since September 2001 has continued to be strong, with continued profitability on increased sales. This is enabling the business to focus on reducing borrowings and improving cash-flow.

Proposed dividend

The directors do not recommend the payment of a dividend.

Directors and directors' interests

The directors and their interests in the share capital of the company as at the beginning and end of the year were as follows:

		£1 ordinary shares	
		At beginning of year	At end of year
J Govett		-	-
J McAulay		-	-
DA Kaye	(resigned October 2000)	3,075	3,075
IJ Ferris		3,075	3,075

The directors' interests in the share capital of the parent company, MCG Europe Limited, are disclosed in the financial statements of that company.

Directors' report *(continued)*

Political and charitable contributions

The company made no political contributions during the year. Donations to UK charities amounted to £850.

Auditors

KPMG were appointed as auditors on 8 October 2001. However, since that date their business was transferred to a limited liability partnership, KPMG LLP. Accordingly KPMG resigned as auditors on 14 June 2002 and the directors thereupon appointed KPMG LLP to fill the vacancy arising. A resolution for the reappointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



J McAulay
Director

Wira Business Park
Clayton Wood Rise
Leeds

25th. November 2002

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period 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.



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Neville Street
Leeds
LS1 4DW

Independent auditors' report to the members of Rivendell Europe Limited

We have audited the financial statements on pages 5 to 16

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.

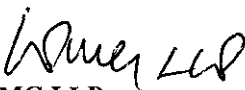
Basis of audit opinion

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 30 September 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


KPMG LLP
Chartered Accountants
Registered Auditor

25 November 2002

Profit and loss account
for the year ended 30 September 2001

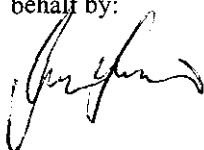
	<i>Note</i>	Continuing operations		
		Before exceptionals £	2001 Exceptional items £	2000 £
Turnover		3,817,704	-	3,162,126
Change in stocks of finished goods and work in progress		2,780	-	50,000
Raw materials and consumables		(518,528)	-	(401,683)
Staff costs	3-4	(1,946,808)	-	(1,904,138)
Depreciation and other amounts written off tangible fixed assets	5	(316,374)	(349,068)	(240,644)
Other operating charges	5	(1,011,217)	(346,040)	(638,964)
Operating profit/(loss)		27,557	(695,108)	26,697
Interest payable and similar charges	6		(74,627)	(72,239)
Loss on ordinary activities before taxation	2-5		(742,178)	(45,542)
Tax on loss on ordinary activities	7		-	7,000
Retained loss for the financial year	15		(742,178)	(38,542)

There are no recognised gains or losses for the year other than the loss for the year as shown above.

Balance sheet
at 30 September 2001

	<i>Note</i>	2001 £	£	2000 £	£
Fixed assets					
Tangible assets	8		1,184,588		603,900
Current assets					
Stocks	9	190,528		187,748	
Debtors	10	1,027,359		1,324,615	
Cash at bank and in hand		2,584		3,185	
		<u>1,220,471</u>		<u>1,515,548</u>	
Creditors: amounts falling due within one year	11	<u>(2,492,618)</u>		<u>(1,759,544)</u>	
Net current liabilities			<u>(1,272,147)</u>		<u>(243,996)</u>
Total assets less current liabilities			<u>(87,559)</u>		<u>359,904</u>
Creditors: amounts falling due after more than one year	12		<u>(461,692)</u>		<u>(166,977)</u>
Provisions for liabilities and charges	13		<u>(23,000)</u>		<u>(23,000)</u>
Net (liabilities)/assets			<u><u>(572,251)</u></u>		<u><u>169,927</u></u>
Capital and reserves					
Called up share capital	14		41,000		41,000
Share premium account	15		9,000		9,000
Profit and loss account	15		<u>(622,251)</u>		<u>119,927</u>
Equity shareholders' (deficit)/funds	16		<u><u>(572,251)</u></u>		<u><u>169,927</u></u>

These financial statements were approved by the board of directors on 25 November 2002 and were signed on its behalf by:



IJ Ferris
Director

Cash flow statement
for the year ended 30 September 2001

	<i>Note</i>	2001 £	2000 £
Net cash inflow from operating activities	21	609,970	77,833
Returns on investments and servicing of finance	21	(74,627)	(72,239)
Capital expenditure	21	(74,704)	(71,078)
Increase/(decrease) in cash before financing		460,639	(65,484)
Financing – (decrease)/increase in net debt	21	(484,311)	21,685
(Decrease) in cash for the year	22	(23,672)	(43,799)

Reconciliation of net cash flow to movement in net debt
for the year ended 30 September 2001

	<i>Note</i>	2001 £	2000 £
(Decrease) in cash for the year	22	(23,672)	(43,799)
Net cash outflow/(inflow) from decrease/(increase) in debt financing	22	484,311	(21,685)
Change in net debt resulting from cash flows	22	460,639	(65,484)
New hire purchase agreements	22	(1,172,126)	(184,000)
Movement in net debt in year		(711,487)	(249,484)
Net debt at beginning of year	22	(1,023,097)	(773,613)
Net debt at end of year	22	(1,734,584)	(1,023,097)

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 in accordance with applicable accounting standards and under the historical cost convention.

The financial statements are prepared on a going concern basis. The company meets its day to day working capital requirements through agreed facilities which are repayable on demand. The company expects to operate within the facilities currently agreed and within those expected to be agreed when the facilities are renewed. These views are based on the company's plans and on the successful outcome of discussions with the company's funders.

Depreciation of tangible fixed assets

Depreciation is provided using the following rates and bases to reduce by annual instalments the cost of the tangible fixed assets over their estimated useful economic lives:

Fixtures and fittings	-	10% - 33% straight line
Plant and machinery	-	10% - 15% straight line
Computer equipment	-	25% - 50% straight line
Motor vehicles	-	25% straight line

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included with creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes a proportion of attributable production overheads.

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. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Notes (continued)

1 Accounting policies (continued)

Turnover

Turnover represents the total invoice value, excluding value added tax, of goods sold and services rendered during the period.

2 Loss on ordinary activities before taxation

	2001 £	2000 £
<i>Loss on ordinary activities before taxation is stated after charging:</i>		
Depreciation	316,374	240,644
Impairment loss	349,068	-
Auditors' remuneration - audit	7,600	6,000
- other services	4,500	1,500
Hire of plant and machinery - rentals payable under operating leases	41,469	37,634
Property - rentals payable under operating leases	84,700	61,774
	<u> </u>	<u> </u>

3 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	
	2001	2000
Production and technical	52	52
Sales and distribution	12	15
Administration	6	8
	<u> </u>	<u> </u>
	70	75
	<u> </u>	<u> </u>

The aggregate payroll costs of these persons were as follows:

	2001 £	2000 £
Wages and salaries	1,238,599	1,216,745
Social security costs	686,175	665,598
Other pension costs (see note 19)	22,034	21,795
	<u> </u>	<u> </u>
	1,946,808	1,904,138
	<u> </u>	<u> </u>

Notes (continued)

4 Remuneration of directors

	2001 £	2000 £
Directors' emoluments - as executives	237,241	189,933
Pension contributions	14,700	7,500
	<u>251,941</u>	<u>197,433</u>

The emoluments of the highest paid director were £102,750 (2000: £84,150). The pension contributions of the highest paid director were £6,600 (2000: £3,000). There were three directors in the pension scheme during the year.

5 Exceptional items

	2001 £
Impairment provision	349,068
Provision against debt due from group undertaking	346,040
	<u>695,108</u>

On 21 March 2001, Rialto Europe Limited, a fellow subsidiary undertaking, ceased trading and became unable to satisfy its financial obligations to Rivendell. The net balance of the relevant intercompany balance was written off in the year. In addition, tangible fixed assets were transferred to Rivendell Europe Limited from Rialto Europe Limited. These assets have been subject to an impairment review and subsequent provision of £349,068.

6 Interest payable and similar charges

	2001 £	2000 £
On other loans	51,831	31,067
Obligations under hire purchase contracts	22,796	41,172
	<u>74,627</u>	<u>72,239</u>

7 Taxation

	2001 £	2000 £
Deferred tax credit	-	(7,000)
	<u>-</u>	<u>(7,000)</u>

Notes (continued)

8 Tangible fixed assets

	Plant and machinery	Fixtures and fittings	Motor vehicles	Total
	£	£	£	£
Cost				
At beginning of year	1,059,079	102,535	158,211	1,319,825
Additions	247,331	10,773	67,970	326,074
Transfer from group undertaking	900,008	16,517	3,601	920,126
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	2,206,418	129,825	229,782	2,566,025
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At beginning of year	599,379	61,143	55,473	715,995
Charge for year	256,928	30,524	28,922	316,374
Impairment losses	332,551	16,517	-	349,068
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	1,188,858	108,184	84,395	1,381,437
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 30 September 2001	1,017,560	21,641	145,387	1,184,588
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2000	459,700	41,392	102,808	603,900
	<hr/>	<hr/>	<hr/>	<hr/>

Included in the total net book value of tangible fixed assets is £732,944 (2000: £318,600) in respect of assets held under finance leases and similar hire purchase contracts.

Depreciation for the year on these assets was £234,542 (2000: £91,283).

9 Stocks

	2001 £	2000 £
Raw materials	28,901	33,082
Work in progress	161,627	154,666
	<hr/>	<hr/>
	190,528	187,748
	<hr/>	<hr/>

Notes (continued)

10 Debtors

	2001 £	2000 £
Amounts falling due within one year		
Trade debtors	873,117	858,246
Other debtors	119,198	35,292
Prepayments and accrued income	35,044	60,646
Amounts falling due after more than one year		
Amounts due from group undertakings	-	370,431
	<u>1,027,359</u>	<u>1,324,615</u>

Included within other debtors are loans to the directors as set out below. These loans are interest free and represent the maximum amount outstanding during the year.

	2001 £	2000 £
J McAulay	-	29,687
I Ferris	-	5,605
J Govett	119,198	-
	<u>119,198</u>	<u>35,292</u>

Included within amounts due from group undertakings is an amount of £nil (2001: £370,431) due from MCG Europe Limited.

11 Creditors: amounts falling due within one year

	2001 £	2000 £
Bank overdraft	124,213	101,142
Trade creditors	309,655	298,607
Hire purchase obligations	545,275	134,790
Other taxes and social security	630,983	433,945
Other creditors	655,988	658,672
Accruals	21,026	52,388
Amounts due to group undertakings	205,478	80,000
	<u>2,492,618</u>	<u>1,759,544</u>

Included within other creditors is an amount of £605,988 (2000: £623,373) due to Lloyds TSB Plc in respect of a confidential invoice discounting agreement. This liability is secured over certain book debts of the company.

Included within other creditors is an amount of £50,000 (2001: £nil) due to J McAulay and £nil (2000: £35,299) due to J Govett, directors of the business.

Included within amounts due to group undertakings is an amount of £129,055 (2001: £80,000) due to Dorset Printers (Europe) Limited and an amount of £76,423 (2001: £nil) due to MCG Europe Limited.

The bank overdraft is secured by a first legal charge on the group's assets.

Notes (continued)

12 Creditors: amounts falling due after more than one year

	2001 £	2000 £
Hire purchase obligations	461,692	166,977

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	2001 £	2000 £
Within one year	545,275	134,790
In the second to fifth years	461,692	166,977
	1,006,967	301,767

13 Provisions for liabilities and charges

	Deferred taxation £
At beginning and end of year	23,000

14 Called up share capital

	2001 £	2000 £
<i>Authorised</i>		
Ordinary shares of £1 each	41,000	41,000
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	41,000	41,000

15 Reserves

	Share premium account £	Profit and loss account £	Total £
At beginning of year	9,000	119,927	128,927
Loss for the year	-	(742,178)	(742,178)
At end of year	9,000	(622,251)	(613,251)

Notes (continued)

16 Reconciliation of movements in shareholders' funds

	2001 £	2000 £
Loss for the financial period	(742,178)	(38,542)
Opening shareholders' funds	169,927	208,469
	<hr/>	<hr/>
Closing shareholders' (deficit)/funds	(572,251)	169,927
	<hr/>	<hr/>

17 Commitments

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

	2001 £	2000 £
Operating leases which expire:		
In the second to fifth year - Plant and machinery	41,469	4,547
- Land and buildings	84,700	64,500
	<hr/>	<hr/>

18 Contingent liabilities

The company and its fellow group undertakings are party to unlimited multilateral company guarantees to Bank of Scotland plc in respect of any liability to Bank of Scotland plc incurred by the company or its fellow group undertakings. The guaranteed borrowings of the group at 30 September 2001 amounted to £195,325 (2000: £144,289).

The company is a guarantor of a sum due to the previous owners of Dorset Printers (Glasgow) Ltd of £250,156 (see note 19).

19 Pension scheme

The company contributes to employees' and directors' personal pension schemes. The amount charged against profit of £22,034 (2001: £21,795) represents the contributions payable to employees' schemes in respect of the accounting period. The amount charged against profit of £14,700 (2001: £7,500) represents the contributions payable to directors' schemes in respect of the accounting period.

Notes (continued)

20 Analysis of cash flows

	2001 £	2000 £
Reconciliation of operating (loss)/profit to net cash inflow from operating activities		
Operating (loss)/profit	(667,551)	26,697
Depreciation charge	316,374	240,644
Increase in stocks	(2,780)	(64,551)
Decrease/(increase) in debtors	297,256	(386,378)
Increase in creditors	317,603	261,421
Impairment provision	349,068	-
	<u>609,970</u>	<u>77,833</u>
Net cash inflow from operating activities		
Returns on investment and servicing of finance		
Interest paid	(74,627)	(72,239)
	<u> </u>	<u> </u>
Capital expenditure		
Payments to acquire tangible fixed assets	(74,704)	(71,078)
	<u> </u>	<u> </u>
Financing		
Repayments of hire purchase obligations	(466,926)	(157,256)
Confidential Invoice Discounting	(17,385)	178,941
	<u> </u>	<u> </u>
Net cash (outflow)/inflow from financing	(484,311)	21,685
	<u> </u>	<u> </u>

21 Analysis of net debt

	At beginning of year £	Cash flow £	Other non-cash changes £	At end of year £
Cash	3,185	(601)	-	2,584
Overdraft	(101,142)	(23,071)	-	(124,213)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	(97,957)	(23,672)	-	(121,629)
Debt due within one year	(623,373)	17,385	-	(605,988)
Hire purchase agreements	(301,767)	466,926	(1,172,126)	(1,006,967)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	(925,140)	484,311	(1,172,126)	(1,612,955)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	(1,023,097)	460,639	(1,172,126)	(1,734,584)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Notes *(continued)*

22 Ultimate parent company

The company is a subsidiary undertaking of MCG Europe Limited, a company incorporated in England. This company is also the ultimate parent company of the group.

MCG Europe Limited is exempt from the need to produce consolidated financial statements as it qualifies as a medium group under the Companies Act 1985.