Rivendell Europe Limited

Directors' report and financial statements

Registered number 3374815

30 September 2004

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 2004.

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

The company continued to grow in strength and the trends in the previous year of improved efficiency and profit. The introduction of new products was a success and accounted for our growth. The following year sees the company re-launch its corporate identity and marketing literature to align more in common with potential markets.

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 McAulay	-	-
IJ Ferris	3,000	-
AD Spowart	-	-

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

Political and charitable contributions

The company made no political contributions during the year. Donations to UK charities amounted to £1,540 *(2003: £1,235)*.

Auditors

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

24 March 2005

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.

KPMG
1 The Embankment
Neville Street
Leeds
LS1 4DW

Report of the independent auditors to the members of Rivendell Europe Limited

We have audited the financial statements on pages 4 to 17.

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 2, 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 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

24 March 2005

Profit and loss account
for the year ended 30 September 2004

	Note	Continuing operations	
		2004 Total £	2003 Total £
Turnover		**3,779,978**	3,712,891
Change in stocks of finished goods and work in progress		**(1,239)**	(29,855)
Raw materials and consumables		**(641,490)**	(449,940)
Other operating income		**313,435**	173,582
Staff costs	*3-4*	**(2,159,782)**	(1,905,374)
Depreciation and other amounts written off tangible fixed assets		**(204,604)**	(270,816)
Other operating charges		**(668,218)**	(681,252)
Operating profit		**418,080**	549,236
Interest payable and similar charges	*5*	**(27,238)**	(82,434)
Interest receivable and similar receipts		**2,991**	977
Profit/(loss) on sale of fixed asset		**12,847**	(14,845)
Profit on ordinary activities before taxation	*2-5*	**406,680**	452,934
Tax on profit on ordinary activities	*6*	**(39,586)**	(61,000)
Retained profit for the financial year	*14*	**367,094**	391,934

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 2004

	Note	2004 £	2004 £	2003 £	2003 £
Fixed assets					
Tangible assets	*7*		**497,261**		583,568
Current assets					
Stocks	*8*	**140,462**		141,701	
Debtors	*9*	**1,085,763**		849,141	
Cash at bank and in hand		**167,264**		84,285	
		1,393,489		1,075,127	
Creditors: amounts falling due within one year	*10*	**(1,337,989)**		(1,415,036)	
Net current asset/(liabilities)			**55,500**		(339,909)
Total assets less current liabilities			**552,761**		243,659
Creditors: amounts falling due after more than one year	*11*		**(19,624)**		(90,616)
Provisions for liabilities and charges	*12*		**(13,000)**		-
Net assets			**520,137**		153,043
Capital and reserves					
Called up share capital	*13*		**41,000**		41,000
Share premium account	*14*		**9,000**		9,000
Capital reserve	*14*		**220,677**		220,677
Profit and loss account	*14*		**249,460**		(117,634)
Equity shareholders' funds	*15*		**520,137**		153,043

These financial statements were approved by the board of directors on 24 March 2005 and were signed on its behalf by:

IJ Ferris
Director

Cash flow statement
for the year ended 30 September 2004

	Note	2004 £	2003 £
Net cash inflow from operating activities	*19*	**404,226**	693,482
Returns on investments and servicing of finance	*19*	**(89,309)**	(69,417)
Taxation		**(50,000)**	(14,928)
Capital expenditure	*19*	**(69,769)**	(40,477)
Increase in cash before financing		**195,148**	568,660
Financing - decrease in net debt	*19*	**(112,169)**	(243,061)
Increase in cash for the year	*20*	**82,979**	325,599

Reconciliation of net cash flow to movement in net debt
for the year ended 30 September 2004

	Note	2004 £	2003 £
Increase in cash for the year	*20*	**82,979**	325,599
Net cash outflow from decrease in debt financing	*20*	**112,169**	243,061
Change in net debt resulting from cash flows	*20*	**195,148**	568,660
New hire purchase agreements		**(35,682)**	-
Movement in net debt in year		**159,466**	568,660
Net debt at beginning of year	*20*	**(734,876)**	(1,303,536)
Net debt at end of year	*20*	**(575,410)**	(734,876)

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.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

Taxation

Deferred tax 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 FRS19.

Turnover

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

Pensions

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contribution payable to the scheme in respect of the accounting year.

2 Profit on ordinary activities before taxation

	2004	2003
	£	£
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation - owned assets	**139,424**	246,826
- leased assets	**65,180**	23,990
Auditors' remuneration - audit	**9,250**	10,000
- other services	**4,500**	4,500
Hire of plant and machinery - rentals payable under operating leases	**30,149**	23,290
Property - rentals payable under operating leases	**94,276**	71,731
Exceptional insurance proceeds	**(300,000)**	-

The exceptional insurance proceeds is in respect of a claim on Keyman Insurance.

Notes *(continued)*

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	
	2004	2003
Production and technical	**38**	39
Sales and distribution	**16**	15
Administration	**6**	6
	60	60

The aggregate payroll costs of these persons were as follows:

	2004	2003
	£	£
Wages and salaries	**1,854,165**	1,633,542
Social security costs	**193,716**	174,312
Other pension costs (see note 18)	**111,901**	97,520
	2,159,782	1,905,374

4 Remuneration of directors

	2004	2003
	£	£
Directors' emoluments	**338,131**	208,044
Pension contributions	**90,124**	76,626

The emoluments of the highest paid director were £179,495 *(2003: £120,850)*. The pension contributions of the highest paid director were £47,912 *(2003: £33,000)*. There were three directors in the pension scheme during the year.

Notes *(continued)*

5 Interest payable and similar charges

	2004	2003
	£	£
Bank loans	**66,761**	58,832
On other loans	**14,449**	-
Obligations under hire purchase contracts	**11,090**	23,602
Release of interest provision	**(65,062)**	-
	27,238	82,434

6 Taxation

	2004	2004	2003	2003
	£	£	£	£
UK Corporation tax				
Current tax on income in the period	**15,000**		90,000	
Adjustment in respect of prior period	**5,586**		-	
Total current tax		**20,586**		90,000
Deferred tax (see note 12)		**19,000**		(29,000)
Tax on profit on ordinary activities		**39,586**		61,000

	2004	2003
	£	£
Current tax reconciliation		
Profit on ordinary activities before tax	**406,680**	452,934
Current tax at 30% *(2003: 30%)*	**122,004**	135,880
Effects of:		
Expenses not deductible for tax purposes	**9,954**	10,919
Capital allowances in excess of depreciation	**(20,779)**	17,853
Marginal relief	**-**	(29,622)
Non taxable income	**(90,000)**	(45,030)
Tax not at standard rate	**(6,179)**	-
Prior year adjustment	**5,586**	-
Total current tax charge	**20,586**	90,000

Notes *(continued)*

7 Tangible fixed assets

	Plant and machinery	Fixtures and fittings	Motor vehicles	Total
	£	£	£	£
Cost				
At beginning of year	1,425,665	170,434	239,689	1,835,788
Additions	73,317	54,633	-	127,950
Disposals	-	-	(145,435)	(145,435)
At end of year	1,498,982	225,067	94,254	1,818,303
Depreciation				
At beginning of year	954,393	96,305	201,522	1,252,220
Charge for year	170,722	17,611	16,271	204,604
Disposals	-	-	(135,782)	(135,782)
At end of year	1,125,115	113,916	82,011	1,321,042
Net book value				
At 30 September 2004	**373,867**	**111,151**	**12,243**	**497,261**
At 30 September 2003	471,272	74,129	38,167	583,568

Included in the total net book value of tangible fixed assets is £97,819 *(2003: £92,551)* in respect of assets held under finance leases and similar hire purchase contracts.

Depreciation for the year on these assets was £67,325 *(2003: £23,990).*

8 Stocks

	2004	2003
	£	£
Raw materials	**18,422**	18,356
Work in progress	**122,040**	123,345
	140,462	141,701

Notes *(continued)*

9 Debtors

	2004	2003
	£	£
Amounts falling due within one year		
Trade debtors	**699,336**	694,537
Other debtors	**-**	62,810
Deferred tax asset	**-**	6,000
Prepayments and accrued income	**47,729**	14,649
	747,065	777,996
Amounts falling due after more than one year		
Amounts due from group undertakings	**338,698**	71,145
	1,085,763	849,141

Included within amounts due from group undertakings is an amount of £338,698 *(2003: £71,145)* due from MCG Europe Limited.

10 Creditors: amounts falling due within one year

	2004	2003
	£	£
Trade creditors	**203,435**	143,626
Hire purchase obligations	**95,102**	138,861
Corporation tax	**105,657**	135,072
Other taxes and social security	**89,650**	315,475
Other creditors	**679,661**	641,397
Accruals	**164,484**	40,605
	1,337,989	1,415,036

Included within other creditors is an amount of £577,948 *(2003: £539,684 Lloyds TSB plc)* due to Bank of Scotland in respect of a confidential invoice discounting agreement. This liability is secured over certain book debts of the company. Also included within other creditors is an amount of £50,000 *(2003: £50,000)* due to Mr AD Spowart a director of the company.

Notes *(continued)*

11 Creditors: amounts falling due after more than one year

	2004 £	2003 £
Hire purchase obligations	**19,624**	90,616

Analysis of debt:	2004 £	2003 £
Debt can be analysed as falling due		
In one year or less, or on demand	**723,050**	728,545
Between one and two years	**19,624**	70,992
Between two and five years	**-**	19,624
	742,674	819,161

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

	2004 £	2003 £
Within one year	**95,102**	138,861
In the second to fifth years	**19,624**	90,616
	114,726	229,477

12 Provisions for liabilities and charges

	Deferred taxation £
At beginning of year (asset)	(6,000)
Credit to the profit and loss for the year	19,000
At end of year liability	**13,000**

The elements of deferred tax are as follows:

	2004 £	2003 £
Difference between accumulated depreciation and capital allowances	**13,000**	(6,000)
Deferred tax liability/(asset)	**13,000**	(6,000)

Notes *(continued)*

13 Called up share capital

	2004	2003
	£	£
Authorised		
Ordinary shares of £1 each	**41,000**	41,000
Allotted, called up and fully paid		
Ordinary shares of £1 each	**41,000**	41,000

14 Reserves

	Share premium account	**Capital reserve**	**Profit and loss account**	**Total**
	£	**£**	**£**	**£**
At beginning of year	9,000	220,677	(117,634)	**112,043**
Profit for the year	-	-	367,094	**367,094**
At end of year	9,000	220,677	249,460	**479,137**

15 Reconciliation of movements in shareholders' funds

	2004	2003
	£	£
Opening shareholders' funds/(deficit)	**153,043**	(238,891)
Profit for the financial period	**367,094**	391,934
Closing shareholders' funds	**520,137**	153,043

Notes *(continued)*

16 Commitments

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

	2004		2003	
	Land and buildings	**Other**	Land and buildings	Other
	£	**£**	£	£
Operating lease which expire				
Within one year	**-**	**1,932**	-	-
In the second to fifth years inclusive	**113,540**	**13,296**	-	13,296
Over five years	**-**	**3,024**	113,540	-
	113,540	**18,252**	113,540	13,296

17 Contingent liabilities

The company is a guarantor of a creditor of £81,979 *(2003: £139,855)* in MGG Europe Limited.

18 Pension scheme

The company contributes to employees' and directors' defined contribution pension schemes. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against profit of £111,901 *(2003: £97,520)* represents the contributions payable to employees' schemes in respect of the accounting period. The amount charged against profit of £90,124 *(2003: £76,626)* represents the contributions payable to directors' schemes in respect of the accounting period.

Notes *(continued)*

19 Analysis of cash flows

	2004 £	2003 £
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	**418,080**	549,236
Depreciation charge	**204,604**	270,816
Decrease in stocks	**1,239**	29,855
(Increase)/decrease in debtors	**(258,945)**	178,178
Increase/(decrease) in creditors	**39,248**	(334,603)
Net cash inflow from operating activities	**404,226**	693,482
Returns on investment and servicing of finance		
Interest paid	**(92,300)**	(70,393)
Interest received	**2,991**	976
	(89,309)	(69,417)
Capital expenditure		
Payments to acquire tangible fixed assets	**(92,268)**	(47,620)
Sale of tangible fixed assets	**22,499**	7,143
	(69,769)	(40,477)
Financing		
Repayments of hire purchase obligations	**(150,433)**	(220,709)
Confidential Invoice Discounting	**38,264**	(72,352)
New loan	**-**	50,000
Net cash outflow from financing	**(112,169)**	(243,061)

Notes *(continued)*

20 Analysis of net debt

	At beginning of year £	*Cash flow* £	*Other non-cash changes* £	*At end of year* £
Cash in hand	148	152	-	**300**
Cash at bank	84,137	82,827	-	**166,964**
	84,285	82,979	-	**167,264**
Debt due within one year	(539,684)	(38,264)	-	**(577,948)**
Hire purchase agreements	(229,477)	150,433	(35,682)	**(114,726)**
Loan	(50,000)	-	-	**(50,000)**
	(819,161)	112,169	(35,682)	**(742,674)**
Total	(734,876)	195,148	(35,682)	**(575,410)**

21 Related party transactions

During the year IJ Ferris and AD Spowart, directors of the company, each purchased vehicles for a consideration of £3,000 from the company on an arms length basis.

The following directors had overdrawn loan accounts in the year as set out below:

	Maximum amount outstanding in the year 2004 £	**Amount outstanding at the year end 2004** £
J McAulay	**10,323**	-
IJ Ferris	**3,000**	-

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.