

**Carron Phoenix Limited**

**Directors' report and financial  
statements**

**Registered number SC 108168**

**31 December 2006**

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## Company information

Directors	Mr H Brockelmanns Dr BW Stauch Dr W Cach Dr A Hauswirth Mr M Pieper Mr W Kemmerling Mr G Stenzenberger
Secretary and Registered Office	I King Carron Works Stenhouse Road Carron Falkirk FK2 8DW
Auditors	KPMG LLP Saltire Court 20 Castle Terrace Edinburgh EH1 2EG
Solicitors	Dundas & Wilson CS Saltire Court 20 Castle Terrace Edinburgh EH1 2EN
Bankers	Bank of Scotland 11 Earl Grey Street Edinburgh EH3 9BN

## Directors' report

The directors have pleasure in submitting their report and financial statements for the year ended 31 December 2006

### Principal activities

The principal activities of the company are the manufacture and sale of sinks

### Business review

The profit for the year, after taxation, amounted to £2,919,492 (2005 £2,196,841)

An interim dividend of £1,500,000 (2005 £1,000,000) was paid and the directors do not recommend the payment of a final dividend

The company has achieved another satisfactory result for the year to 31 December 2006, against a background of an increasingly challenging competitive environment. Turnover was £42,129,100, up 6.0% on the previous year which had a consequent positive effect on profit. This was due to an increased volume of product sold particularly in overseas markets.

The principal risks and uncertainties affecting the business include the following

The company would suffer if there is, as anticipated, a significant increase in the cost of steel and if this cannot be passed on as price increases to customers

The UK market for key accounts is competitive and risks arise from the concentration of business

There is a dependence on a small number of raw material suppliers

Cost increases of materials and more recently UK energy costs pose a significant threat to profitability

Increased competition from low cost producers

Key areas of strategic development and performance of the business include

Launch of new products and development of UK brand profile through refreshed corporate design

Development of processes to increase productivity and quality and reduce costs of production

Increase reliance on management information systems

Continued investment in improvements to the production processes

Key financial indicators include the monitoring of profitability, return on assets, cash flow and management of net working capital

### Directors

The directors who held office during the year were as follows

Dr W Cach	Dr B Stauch	Mr H Brockelmanns (appointed 11 September 2006)
Dr A Hauswirth	Mr R Clark (resigned 11 September 2006)	Mr W Kemmerling (appointed 11 September 2006)
Mr M Pieper	Mr J Smith (resigned 31 January 2007)	Mr G Stenzenberger (appointed 11 September 2006)

None of the directors held a beneficial interest in the shares of the company

## **Directors' report** *(continued)*

### **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 they have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a 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 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, 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 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.

### **Employee involvement**

The company attaches importance to the involvement of employees in its affairs and employees are informed regularly by their own managers on company performance.

### **Employment of disabled persons**

It is the policy of the company that disabled persons will receive full and fair consideration when applying for a job within the company and in selection for training, career development and promotion.

### **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.

By order of the board



**I King**  
*Secretary*

2 February 2007



KPMG LLP

## **Report of the independent auditors to the members of Carron Phoenix Limited**

We have audited the financial statements of Carron Phoenix Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet 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**

As described in the Statement of Directors' Responsibilities on page 3, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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. We also 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 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 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*

2 February 2007

Saltire Court  
20 Castle Terrace  
Edinburgh  
EH1 2EG

**Profit and loss account**  
*for the year ended 31 December 2006*

	<i>Note</i>	<b>2006</b> <b>£000</b>	2005 £000
<b>Turnover</b>	2	<b>42,129</b>	39,730
Cost of sales		<b>(32,643)</b>	(31,084)
<b>Gross profit</b>		<b>9,486</b>	8,646
Distribution costs		<b>(446)</b>	(473)
Administrative expenses		<b>(5,261)</b>	(4,995)
<b>Operating profit</b>		<b>3,779</b>	3,178
Interest receivable	6	<b>103</b>	155
Interest payable and similar charges	6	<b>(104)</b>	(222)
<b>Profit on ordinary activities before taxation</b>	3 5	<b>3,778</b>	3,111
Taxation	7	<b>(858)</b>	(915)
<b>Profit for the financial year</b>		<b>2,920</b>	2,196

A statement of movements on reserves is given in note 16

Other than the profit for the financial year, there were no other recognised gains or losses

The operating profit relates entirely to continuing activities

**Balance sheet**  
*at 31 December 2006*

	<i>Note</i>	<b>2006</b>	<b>2005</b>
		<b>£000</b>	<b>£000</b>
<b>Fixed assets</b>			
Tangible assets	8	15,300	14,554
<b>Current assets</b>			
Stocks	9	3,216	2,355
Debtors	10	3,721	2,424
Cash at bank and in hand		674	523
		<u>7,611</u>	<u>5,302</u>
<b>Creditors amounts falling due within one year</b>	11	<u>(7,274)</u>	<u>(5,577)</u>
<b>Net current (liabilities)/assets</b>		<u>337</u>	<u>(275)</u>
<b>Total assets less current liabilities</b>		<u>15,637</u>	<u>14,279</u>
<b>Provisions for liabilities and charges</b>	13	(946)	(1,008)
<b>Deferred income</b>	14	(367)	(367)
<b>Net assets</b>		<u>14,324</u>	<u>12,904</u>
<b>Capital and reserves</b>			
Called up share capital	15	6,000	6,000
Profit and loss account	16	8,324	6,904
<b>Shareholders' funds</b>		<u>14,324</u>	<u>12,904</u>

These financial statements were approved by the Board of Directors on 2 February 2007, and signed on its behalf by



**H Brockelmanns**  
*Director*



## 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 accounting rules

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cashflow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

#### *Fixed assets and depreciation*

Depreciation is provided by the company to write off the cost or valuation of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

Freehold buildings	20 years
Plant, machinery and equipment	2 to 10 years
Motor vehicles	Commercial vehicles 5 years
	Motor cars 3 years

No depreciation is provided on freehold land, or assets in the course of construction

#### *Government grants*

Government grants in respect of capital projects are credited to trading profit over the estimated useful economic lives of the assets to which they relate. The grants shown in the balance sheet consist of the total grants received and receivable to date less amounts so far credited to profits. Revenue grants received and receivable are credited to the profit and loss account in the year to which they relate

#### *Stocks*

Stocks are valued at the lower of cost and net realisable value. For work in progress and finished goods cost is taken as production cost, which includes an appropriate proportion of overheads

#### *Taxation*

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Full provision for deferred taxation is made, using the liability method

#### *Foreign currencies*

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction, or at the forward exchange contract rate. Assets and liabilities denominated in foreign currencies are translated into sterling at the year end rate of exchange and exchange differences arising are included in the profit and loss account

## Notes (continued)

### 1 Accounting policies (continued)

#### *Leases*

Assets acquired under finance leases are capitalised and depreciated over their useful economic lives. Outstanding obligations under the leases net of finance charges are included as a liability. Operating lease costs are charged to the profit and loss account as incurred.

#### *Pensions*

The amount charged against profits represents the contributions payable to the company's defined contribution pension schemes in respect of the accounting year.

### 2 Turnover

Turnover is shown excluding VAT and represents sales of sinks and accessories.

	2006 £000	2005 £000
The geographical markets are as follows		
Great Britain	17,183	17,323
Overseas	24,946	22,407
	<hr/> 42,129	<hr/> 39,730

### 3 Profit on ordinary activities before taxation

	2006 £000	2005 £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Depreciation of tangible fixed assets	2,711	2,709
Hire of vehicles under operating leases	101	110
Hire of plant and machinery	74	64
Auditors' remuneration    Audit of these financial statements	23	24
Other services relating to taxation	7	6
	<hr/>	<hr/>
<i>and after crediting</i>		
Government grants		120
	<hr/>	<hr/>

### 4 Employee numbers and costs

	2006	2005
<i>Average number of employees by activity</i>		
Production	344	365
Sales and administration	79	80
	<hr/> 423	<hr/> 445
	<hr/>	<hr/>
	2006	2005
	£000	£000
<i>Employee costs</i>		
Wages and salaries	10,487	10,307
Social security costs	1,027	1,006
Other pension costs	499	502
	<hr/> 12,013	<hr/> 11,815
	<hr/>	<hr/>

**Notes** *(continued)*

**5 Remuneration of directors**

	2006 £000	2005 £000
Directors' emoluments	282	143
Company contributions to money purchase pension schemes	10	10

The aggregate emoluments of the highest paid director was £136,474 (2005 £103,376) and company pension contributions of £10,260 (2005 £9,960) were made to a money purchase scheme on his behalf

	Number of directors 2006	2005
Retirement benefits are accruing to the following number of directors under		
Money purchase schemes	1	1

**6 Interest**

	2006 £000	2005 £000
Bank interest receivable	103	155
Interest payable on bank overdrafts	104	222

**7 Taxation**

	2006 £000	2005 £000
UK Corporation tax at 30% (2005 -- 30%)	654	1,019
UK Group relief	295	21
Adjustments relating to an earlier year	(29)	(57)
Total current tax	920	983
Deferred taxation	(62)	(68)
	858	915

## Notes (continued)

### 7 Taxation (cont'd)

Factors affecting the tax charge for the current year

The current tax charge for the year is lower (2005 higher) than the standard rate of corporation tax in the UK (30%) (2005 30%) The differences are explained below

	2006 £000	2005 £000
Current tax reconciliation		
Profit on ordinary activities before tax	3,778	3,111
Current tax at 30% (2005 30%)	1,133	934
Effects of		
Group relief received at rates other than 30%	(275)	
Expenses not deductible for tax purposes	29	38
Timing differences	62	68
Adjustments to tax in respect of previous periods	(29)	(57)
Total current tax charge (see above)	920	983

### 8 Tangible fixed assets

	Freehold Land and buildings £000	Office equipment £000	Plant machinery and equipment £000	Motor vehicles £000	Assets under construction £000	Total £000
<b>Cost</b>						
At start of year	8,302	355	32,102	37	670	41,466
Additions	162	8	1,786		1,501	3,457
Transfers	413		257		(670)	
Disposals			(789)			(789)
At end of year	8,877	363	33,356	37	1,501	44,134
<b>Depreciation</b>						
At start of year	2,904	256	23,738	14		26,912
Disposals			(789)			(789)
Charge for year	383	31	2,291	6		2,711
At end of year	3,287	287	25,240	20		28,834
<b>Net book amount</b>						
At 31 December 2006	5,590	76	8,116	17	1,501	15,300
At 31 December 2005	5,398	99	8,364	23	670	14,554

**Notes (continued)**

**9 Stocks**

	2006 £000	2005 £000
Raw materials and consumables	1,885	976
Work in progress	811	628
Finished goods and goods for resale	520	751
	<hr/> 3,216	<hr/> 2,355
	<hr/> <hr/>	<hr/> <hr/>

The directors are of the opinion that the replacement cost of stocks would not be materially different from the above

**10 Debtors**

	2006 £000	2005 £000
Amounts owed by group undertakings	3,433	2,198
Prepayments and other debtors	288	226
	<hr/> 3,721	<hr/> 2,424
	<hr/> <hr/>	<hr/> <hr/>

**11 Creditors. amounts falling due within one year**

	2006 £000	2005 £000
Trade creditors	3,374	2,260
Other tax and social security	353	329
Other creditors and accruals	2,030	1,550
Due to group undertakings	1,169	1,184
Corporation tax	348	254
	<hr/> 7,274	<hr/> 5,577
	<hr/> <hr/>	<hr/> <hr/>

£NIL of the stock is subject to reservation of title (2005 £75,309) in favour of creditors included above

**Notes (continued)**

**12 Operating leases**

	<b>Other operating leases</b>	
	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
Annual commitments under non cancellable operating leases are	93	70
These can be analysed as follows	<u>          </u>	<u>          </u>
Payable in respect of leases which expire within one year	16	26
Payable in respect of leases which expire between two and five years	77	44
	<u>93</u>	<u>70</u>

**13 Provisions for liabilities and charges**

	<b>Deferred taxation</b>
	<b>£000</b>
At beginning of year	1,008
Credit for year	(62)
	<u>          </u>
At end of year	946
	<u>          </u>

The amounts provided for deferred taxation are set out below

	<b>2006</b>	<b>2005</b>
	<b>Provided</b>	<b>Provided</b>
	<b>£000</b>	<b>£000</b>
Difference between accumulated depreciation and capital allowances	952	1,038
Other timing differences	(6)	(30)
	<u>946</u>	<u>1,008</u>

**14 Deferred income**

	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
<i>Government grants</i>		
At start of year	367	487
Credited to profit and loss account		(120)
	<u>367</u>	<u>367</u>

The regional selective assistance grant received is dependent on the maintenance of a certain number of jobs until 1 September 2008. If the required number of jobs is not maintained until this date, the company would require to discuss any potential repayment with the Scottish Executive.

## Notes (continued)

### 15 Share capital

	2006 £000	2005 £000
<i>Authorised</i>		
Ordinary shares of £1 each	10,000	10,000
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	6,000	6,000

### 16 Reserves

	2006 £000	2005 £000
<i>Profit and loss account</i>		
At start of year	6,904	5,708
Profit for the financial year	2,920	2,196
Interim dividend paid	(1,500)	(1,000)
At end of year	8,324	6,904

### 17 Reconciliation of movements in shareholders' funds

	2006 £000	2005 £000
Profit for the financial year	2,920	2,196
Interim dividend paid	(1,500)	(1,000)
Net increase in shareholders' funds	1,420	1,196
Opening shareholders' funds	12,904	11,708
Closing shareholders' funds	14,324	12,904

### 18 Capital commitments

	2006 £000	2005 £000
Contracted but not provided	406	324

### 19 Guarantees

The company has given a guarantee covering all sums due by Franke UK Holding Limited and certain UK subsidiary undertakings to the Bank of Scotland, and has granted a right of offset against any amount owed by any of these group companies to the Bank. The group and company bank overdrafts are secured in favour of the Bank of Scotland by way of a floating charge.

### 20 Pension costs

The company operates two defined contribution pension schemes. The assets of the schemes are held separately from those of the company in independently administered funds. The pension cost charge represents contributions payable by the company to the funds and amounted to £499,084 (2005 £502,176).

## Notes (continued)

### 21 Related party transactions

Transactions with related parties, as defined by Financial Reporting Standard 8, being fellow subsidiaries of the Franke Holding AG group not included in the UK statutory consolidated accounts of Franke UK Holding Limited are summarised below

	2006 £000	2005 £000
Sales to fellow subsidiaries on normal trading terms	22,675	20,149
Purchases from fellow subsidiaries on normal trading terms	1,082	487
Purchases of fixed assets from fellow subsidiaries	850	81
Management charges from fellow subsidiaries	406	412
Royalty charges from fellow subsidiaries	859	773
Other expenses charged by group companies	95	46
Amounts due by fellow subsidiaries	2,872	2,117
Amounts owed to fellow subsidiaries	317	214
Factoring charges	809	752
Directors' fees	39	39

Advantage has been taken of the exemption permitted under FRS8 not to report details of transactions with fellow subsidiaries where the group's holding is greater than 90% and which are included in the UK statutory consolidated accounts of Franke UK Holding Limited.

### 22 Immediate and ultimate holding company

The company is a wholly owned subsidiary undertaking of Franke UK Holding Ltd which is registered in Scotland

Copies of the Franke UK Holding Limited group accounts, which incorporate the results of the company, are available from

The Registrar of Companies  
37 Castle Terrace  
Edinburgh  
EH1 2EB

The directors of the company consider Franke Holding AG, a private Swiss company, to be the company's ultimate parent undertaking

Copies of Franke Holding AG group accounts, which incorporate the results of the Franke UK Holding Limited group, are not available to the public