

VALSPAR INDUSTRIES (UK) LIMITED (FORMERLY LILLY INDUSTRIES (UK)
LIMITED)

Report and Accounts

30 November 2001

Registered No. 2360505

 ERNST & YOUNG



DIRECTORS

D G Doig
D Wilkins
S Knights

SECRETARY

D Wilkins

AUDITORS

Ernst & Young LLP
Apex Plaza
Reading
Berkshire
RG1 1YE

BANKERS

Barclays Bank Plc
South Oxon Group Abingdon
PO Box 42
Abingdon
Oxfordshire
OX14 1GU

REGISTERED OFFICE

152 Milton Park
Abingdon
Oxfordshire
OX14 4SD

Valspar Industries (UK) Limited

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 30 November 2001.

RESULTS AND DIVIDENDS

The results for the year are as set out in the attached accounts. No interim dividends were paid during 2001 (2000: £Nil). No final dividend is proposed.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activity of the company continues to be the marketing and distribution of Guardsman products for fabric protection and for the protection and maintenance of upholstered and wooden furniture. The company also acts as an agent in the sale and administration of fabric and furniture protection insurance policies.

DIRECTORS AND THEIR INTERESTS

The directors during the year were as follows:

K C Vander-Hyde	(resigned 20 December 2000)
D G Doig	
D Wilkins	
R Gretton	(resigned 16 March 2001)
S Knights	(appointed 1 December 2000)

No director holds any interest in the share capital of the company. There were no directors' interests in the shares of The Valspar Corporation at the year end which require disclosure in this report.

CHARITABLE CONTRIBUTIONS

During the year, there were no charitable contributions (2000: £Nil).

AUDITORS

A resolution to re-appoint Ernst & Young LLP as the company's auditor will be put to the forthcoming Annual General Meeting.

On behalf of the Board

Director



23/12/02

Valspar Industries (UK) Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts 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 of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts 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 accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VALSPAR INDUSTRIES (UK) LIMITED (FORMERLY LILLY INDUSTRIES (UK) LIMITED)

We have audited the company's financial statements for the year ended 30 November 2001 which comprise the Profit and Loss Account, Balance Sheet, Statement of Recognised Gains and Losses, and the related notes 1 to 20. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

This report has been prepared for the members of the company pursuant to Section 235 of the Companies Act 1985 (the "Act") and for no other purpose.

No person is entitled to rely on this report unless such person:

- i) is a person who is entitled to rely on this report by virtue of and for the purposes of the Act; or
- ii) has been expressly authorized to do so by our prior written consent

Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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.

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 United Kingdom 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 affairs of the company as at 30 November 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
Reading

23  2002

Valspar Industries (UK) Limited

PROFIT AND LOSS ACCOUNT

For the year ended 30 November 2001

	Notes	2001 £	2000 £
TURNOVER	2	9,667,877	7,416,926
Cost of sales		4,382,218	2,657,340
Gross profit		5,285,659	4,759,586
Distribution expenses		711,006	612,963
Administration costs		4,068,225	3,682,410
OPERATING PROFIT	3	506,428	464,213
Interest receivable	6	53,316	17,132
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		559,744	481,345
Tax on profit on ordinary activities	7	(189,164)	(165,743)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		370,580	315,602
RETAINED PROFIT FOR THE YEAR	18	370,580	315,602

The above results are all derived from continuing operations.

STATEMENT OF RECOGNISED GAINS AND LOSSES

There were no recognised gains and losses other than the profit attributable to members of £370,580 for the year ended 30 November 2001 and £315,602 in the year ended 30 November 2000.

Valspar Industries (UK) Limited


BALANCE SHEET

At 30 November 2001

	Notes	2001 £	2000 £
FIXED ASSETS			
Tangible assets	8	148,278	229,376
CURRENT ASSETS			
Stocks	9	230,595	273,487
Debtors	10	5,430,918	2,802,244
Cash at bank and in hand		4,473,382	507,041
		10,134,895	3,582,772
CREDITORS: amounts falling due within one year	11	5,137,796	2,364,163
NET CURRENT ASSETS		4,997,099	1,218,609
TOTAL ASSETS LESS CURRENT LIABILITIES		5,145,377	1,447,985
CREDITORS: amounts falling due after more than one year	12	3,922,919	596,107
		1,222,458	851,878
CAPITAL AND RESERVES			
Called up share capital	14	2,000	2,000
Profit and loss account	18	1,220,458	849,878
Equity shareholders' funds		1,222,458	851,878

By order of the Board on

Director

 23/12/02

Valspar Industries (UK) Limited

NOTES TO THE ACCOUNTS

At 30 November 2001

1 ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Cash Flow Statement

The company is a wholly owned subsidiary of The Valspar Corporation and is included in its consolidated accounts, which are publicly available. The directors have taken advantage of the exemption from preparing a cashflow statement in accordance with Financial Reporting Standard No.1 (Revised 1996).

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost or valuation, less estimated residual value of each asset, evenly over its expected useful life, as follows:

	<i>Years</i>
Leasehold improvements	0-20
Plant and Equipment	3-10
Furniture	3-10

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis. Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Deferred tax assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Leasing commitments

Rentals paid under operating leases are charged to income on a straight-line basis over the lease term.

Advertising

Expenditure on literature is accounted for as a prepayment and written off over a period of 12 to 36 months. This reflects the useful life of such literature and the stock items to which it relates.

Warranty costs

The warranty accrual is based on an estimate of future claims within the warranty period outstanding for both current and prior year sales.

Valspar Industries (UK) Limited

NOTES TO THE ACCOUNTS

At 30 November 2001

1 ACCOUNTING POLICIES (CONTINUED)

Pensions

The company contributes to group personal pension plans. Contributions are charged to the profit and loss account as they become payable.

2 TURNOVER

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties. Turnover is attributable to two continuing activities. The primary activity is the marketing and distribution of "Guardsman" products for fabric protection and for the protection and maintenance of upholstered and wooden furniture. A secondary activity relates to acting as agent in the sale and administration of fabric and furniture protection insurance policies.

Geographical analysis of turnover

	2001 £	2000 £
UK	9,652,474	7,393,912
Rest of Europe	15,403	23,014
	<u>9,667,877</u>	<u>7,416,926</u>

Analysis of turnover by area of activity

In the opinion of the directors, the disclosure of this information would be seriously prejudicial to the interests of the company, hence it has not been disclosed.

3 OPERATING PROFIT

This is stated after charging:

	2001 £	2000 £
Auditors' remuneration - audit services	16,000	14,000
- other	14,400	12,303
Depreciation of owned assets	81,098	93,531
Operating lease rentals		
- land and buildings	105,000	105,000
- plant and machinery	113,669	91,749
	<u></u>	<u></u>

4 DIRECTORS' REMUNERATION

	2001 £	2000 £
Emoluments	235,364	235,192
Company contributions to group personal pension plans	17,623	16,794
	<u>252,987</u>	<u>251,986</u>

Total emoluments of the highest paid director for the reporting year were £109,358 (2000: £105,084) and total pension contributions of the highest paid director were £7,322 (2000: £7,338).

Valspar Industries (UK) Limited

NOTES TO THE ACCOUNTS

At 30 November 2001

5 STAFF COSTS

	2001 £	2000 £
Wages & salaries	1,390,868	1,410,721
Social security costs	141,640	130,728
Other pension costs	79,643	73,947
Temporary staff	18,711	113,512
	<u>1,630,862</u>	<u>1,728,908</u>

Average number of employees during the year:

	2001 No.	2000 No.
Administration	8	11
Sales	58	52
Warehouse	3	3
	<u>69</u>	<u>66</u>

6 INTEREST RECEIVABLE

	2001 £	2000 £
Bank deposit interest	<u>53,316</u>	<u>17,132</u>

7 TAXATION

The taxation charge is made up as follows:

	2001 £	2000 £
Based on the profit for the year:		
UK corporation tax	189,164	160,898
Prior year corporation tax under provided	-	4,845
	<u>189,164</u>	<u>165,743</u>

Valspar Industries (UK) Limited

NOTES TO THE ACCOUNTS

At 30 November 2001

8 TANGIBLE FIXED ASSETS

	<i>Short leasehold improvements</i> £	<i>Furniture</i> £	<i>Plant and equipment</i> £	<i>Total</i> £
Cost:				
At 1 December 2000	119,472	100,791	383,120	603,383
Additions	-	-	-	-
At 30 November 2001	119,472	100,791	383,120	603,383
Depreciation:				
At 1 December 2000	55,909	64,977	253,121	374,007
Charge for the year	11,808	7,430	61,860	81,098
At 30 November 2001	67,717	72,407	314,981	455,105
Net book value:				
At 30 November 2001	51,755	28,384	68,139	148,278
Net book value:				
At 1 December 2000	63,563	35,814	129,999	229,376

9 STOCKS

	<i>2001</i> £	<i>2000</i> £
Raw materials and consumables	32,776	55,298
Finished goods and goods for resale	197,819	218,189
	230,595	273,487

10 DEBTORS

	<i>2001</i> £	<i>2000</i> £
Trade debtors	3,638,471	2,160,935
Prepayments and accrued income	335,024	254,444
Other debtors	3,357	15,888
Loan to parent undertaking	-	300,000
Amounts receivable from affiliated companies	1,454,066	70,977
	5,430,918	2,802,244

Valspar Industries (UK) Limited

NOTES TO THE ACCOUNTS

At 30 November 2001

11 CREDITORS: amounts falling due within one year

	2001 £	2000 £
Trade creditors	1,544,520	108,065
Amount payable to associated company	1,082,349	728,603
Other taxes and social security costs	108,429	218,702
Corporation tax	52,068	85,898
Accruals and deferred income	974,611	735,085
Warranty claims accrual	1,375,819	487,810
	<u>5,137,796</u>	<u>2,364,163</u>

12 CREDITORS: amounts falling due after more than one year

	2001 £	2000 £
Warranty claims accrual	<u>3,922,919</u>	<u>596,107</u>

13 PROVISION FOR LIABILITIES AND CHARGES

Deferred taxation (asset)/liabilities provided in the accounts and the amounts not provided are as follows:

	<i>Provided</i>		<i>Not provided</i>	
	2001	2000	2001	2000
	£	£	£	£
Capital allowances in advance of depreciation	-	-	(3,559)	8,598
Other timing differences	-	-	(48,287)	(49,091)
	<u>-</u>	<u>-</u>	<u>(51,846)</u>	<u>(40,493)</u>

14 SHARE CAPITAL

	<i>Authorised</i>		<i>Allotted, called up and fully paid</i>	
	2001	2000	2001	2000
	No	No	£	£
Ordinary shares of £1 each	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>

15 PENSION COMMITMENTS

The company contributes to group personal pension plans for its directors and all employees. The assets of the scheme are held separately from those of the company. The pension cost charged represents contributions payable by the company to the personal pension plans. There was no outstanding balance unpaid at the year end (2000: £Nil).

Valspar Industries (UK) Limited

NOTES TO THE ACCOUNTS

At 30 November 2001

16 CAPITAL COMMITMENTS

At the balance sheet date the company had not entered into contracts for future capital expenditure.

17 OPERATING LEASES

At 30 November 2001, the company had annual commitments under non-cancellable operating leases as set out below:

	<i>Other</i>		<i>Land and buildings</i>	
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	£	£	£	£
Operating leases which expire:				
Within one year	6,815	33,197	-	-
Between two and five years	54,274	57,100	105,000	126,000
	<u>61,089</u>	<u>90,297</u>	<u>105,000</u>	<u>126,000</u>

18 RECONCILIATION OF SHAREHOLDERS' FUNDS

	<i>Share capital</i>	<i>Profit & loss account</i>	<i>Total</i>
	£	£	£
At 1 December 1999	2,000	534,276	536,276
Profit for the year	-	315,602	315,602
At 1 December 2000	2,000	849,878	851,878
Profit for the year	-	395,795	395,795
At 30 November 2001	<u>2,000</u>	<u>1,245,673</u>	<u>1,247,673</u>

19 ULTIMATE PARENT COMPANY

The largest and smallest group in which the results of Valspar Industries (UK) Limited are consolidated is that headed by Lilly Industries Inc, now The Valspar Corporation, a company incorporated in the United States. The consolidated accounts for this group are available to the public and may be obtained from:

The Valspar Corporation
1101 South Third Street
Minneapolis
MN 55415

20 RELATED PARTY TRANSACTIONS

Related party transactions with other group companies have not been disclosed as the company is entitled to an exemption under FRS 8 as a wholly owned subsidiary.