360505

Valspar Industries (UK) Limited

Report and Financial Statements

30 September 2002

Ernst & Young

A60 *AK33SPNC* 0031
COMPANIES HOUSE 31/10/03

Registered No: 2360505

Directors
D G Doig
D Wilkins

Secretary
D Wilkins

Auditors
Ernst & Young LLP
Apex Plaza
Reading
RG1 1YE

Bankers
Barclays Bank Plc
PO Box 42
Abingdon
Oxfordshire
OX14 1GU

Registered office
152 Milton Park
Abingdon
Oxfordshire
OX14 4SD

Directors' report

The directors present their report and financial statements for the period from 1 December 2001 to 30 September 2002.

Results and dividends

The profit for the period amounted to £498,266. The directors do not recommend the payment of any dividends.

Principal activities and review of the business

The principal activity of the company during the period 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.

The company is also a franchisor for a cleaning franchise, which trades in the name "Safeclean". The company sells franchises and supplies products and management services to its network of franchisees.

Directors

The directors who served the company during the period were as follows:

D G Doig
D Wilkins
S Knights (Resigned 31 August 2002)

There are no directors' interests requiring disclosure under the Companies Act 1985.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the board

Director
30th October 2003

Statement of directors' responsibilities in respect of the financial statements

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 of the company 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; 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 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 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.

ERNST & YOUNG

Independent auditors' report

to the members of Valspar Industries (UK) Limited

We have audited the company's financial statements for the period ended 30 September 2002 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 20. These financial statements have been prepared on the basis of 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 auditors' 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 the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

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.

ERNST & YOUNG

Independent auditors' report

to the members of Valspar Industries (UK) Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 30 September 2002 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Apex Plaza
Reading
RG1 1YE

31 October 2003

Profit and loss account

for the period from 1 December 2001 to 30 September 2002

	Notes	10 months to 30 September 02 £	Year to 30 November 01 £
Turnover	2	6,316,638	9,667,877
Cost of sales		1,926,414	4,382,218
Gross profit		4,390,224	5,285,659
Distribution costs		524,604	711,006
Administrative expenses		4,118,755	4,068,225
Operating (loss)/profit	3/4	(253,135)	506,428
Bank interest receivable	7	91,773	53,316
(Loss)/profit on ordinary activities before taxation		(161,362)	559,744
Tax on (loss)/profit on ordinary activities	8	(659,628)	189,164
Profit retained for the financial period		498,266	370,580

Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit of £498,266 attributable to the shareholders for the period ended 30 September 2002 (2001 - profit of £370,580).

Balance sheet
at 30 September 2002

	Notes	30 September 02 £	30 November 01 £
Fixed assets			
Tangible assets	9	95,584	148,278
Current assets			
Stocks	10	221,966	230,595
Debtors	11	4,961,801	5,430,918
Cash at bank		3,872,238	4,473,382
		9,056,005	10,134,895
Creditors: amounts falling due within one year	12	2,622,765	5,137,796
Net current assets		6,433,240	4,997,099
Total assets less current liabilities		6,528,824	5,145,377
Creditors: amounts falling due after more than one year	13	4,058,100	3,922,919
Provisions for liabilities and charges	15	750,000	–
		1,720,724	1,222,458
Capital and reserves			
Called up share capital	18	2,000	2,000
Profit and loss account	19	1,718,724	1,220,458
Equity shareholders' funds	19	1,720,724	1,222,458

Director

30th October 2003

Notes to the financial statements
at 30 September 2002

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention.

In preparing the financial statements for the current year, the group has adopted FRS 19 'Deferred Tax'. The adoption of FRS 19 has resulted in a change in accounting policy for deferred tax. Deferred tax is recognised on a full provision basis in accordance with the accounting policy described below. Previously, deferred tax was provided for on a partial provision basis, whereby provision was made on all timing differences to the extent that they were expected to reverse in the future without replacement.

Adoption of FRS 19 has not required any revisions to the financial statements in either the current or prior years.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes a consolidated cash flow statement.

Fixed assets

All fixed assets are initially recorded at cost. The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Depreciation

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

Leasehold Improvements	- over the lease term
Plant and Equipment	- 10 to 20 years
Furniture & Office Equipment	- 3 to 10 years

Stocks

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition and net realisable value as follows:

Raw materials, consumables and goods for resale	-	purchase cost on a first-in, first-out basis.
Finished goods	-	cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

The directors are of the opinion that the difference between purchase price or production cost of stocks and their replacement cost is not material.

Notes to the financial statements
at 30 September 2002

1. Accounting policies *(continued)*

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception:

> deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

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.

Operating lease agreements

Rentals payable under operating leases are charged in the Profit and Loss Account on a straight-line basis over the lease term.

Pension costs

The company operates a defined contribution pension scheme. Contributions are charged in the Profit and Loss Account as they become payable in accordance with the rules of the scheme.

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.

Notes to the financial statements
at 30 September 2002

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.

An analysis of turnover by geographical market is given below:

	10 months to 30 September 02	*Year to 30 November 01*
	£	*£*
United Kingdom	6,316,638	9,652,474
Overseas sales	–	15,403
	6,316,638	9,667,877

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 is not disclosed.

3. Operating (loss)/profit

This is stated after charging/(crediting):

		10 months to 30 September 02	*Year to 30 November 01*
		£	*£*
Auditors' remuneration	- audit services	16,000	16,000
	- non-audit services	–	14,400
		16,000	30,400
Depreciation of owned fixed assets		52,694	81,098
Operating lease rentals	- land and buildings	90,033	105,000
	- plant and machinery	91,226	113,669

4. Exceptional items

	10 months to 30 September 02	*Year to 30 November 01*
	£	*£*
Recognised in arriving at (loss)/operating profit:		
Claims provision	(750,000)	–

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Notes to the financial statements
at 30 September 2002

4. Exceptional items (continued)

On 18th March 2003, eight former commercial agents filed a claim against the Company for commissions and compensation allegedly owed to them pursuant to The Commercial Agents (Council Directive) Regulations 1993 as a result of the termination of their agencies on 31 August 1998. The directors have included an exceptional provision of £750,000 (2001 - £nil) in this period's financial statements to cover their best estimate of probable costs to settle this claim. The tax impact of this provision is estimated to be £225,000.

5. Staff costs

	10 months to 30 September 02	*Year to 30 November 01*
	£	*£*
Wages and salaries	1,212,899	1,409,579
Social security costs	83,962	141,640
Other pension costs	67,432	79,643
	1,364,293	1,630,862

The monthly average number of employees during the period was as follows:

	10 months to 30 September 02	*Year to 30 November 01*
	No.	*No.*
Administrative staff	13	8
Sales	62	58
Warehouse	3	3
	78	69

6. Directors' emoluments

	10 months to 30 September 02	*Year to 30 November 01*
	£	*£*
Emoluments	202,643	235,364
Value of company pension contributions to money purchase schemes	13,837	17,623

	10 months to 30 September 02	*Year to 30 November 01*
	No.	*No.*
Members of money purchase pension schemes	–	2

Notes to the financial statements
at 30 September 2002

6. Directors' emoluments (continued)

The amounts in respect of the highest paid director are as follows:

	10 months to 30 September 02	*Year to 30 November 01*
	£	*£*
Emoluments	82,689	109,358
Value of company pension contributions to money purchase schemes	5,859	7,322

7. Interest receivable

	10 months to 30 September 02	*Year to 30 November 01*
	£	*£*
Bank interest receivable	91,773	53,316

8. Tax

(a) Tax on (loss)/profit on ordinary activities

The tax (credit)/charge is made up as follows:

	10 months to 30 September 02	*Year to 30 November 01*
	£	*£*
Current tax:		
UK corporation tax	–	189,164
Tax over provided in previous periods	(350,062)	–
Total current tax (note 8(b))	(350,062)	189,164
Deferred tax:		
Origination and reversal of timing differences	(309,566)	–
Tax (credit)/charge on (loss)/profit on ordinary activities	(659,628)	189,164

Notes to the financial statements
at 30 September 2002

8. Tax *(continued)*

(b) Factors affecting current tax (credit)/charge

The tax assessed on the (loss)/profit on ordinary activities for the period is lower than the standard rate of corporation tax in the UK of 30% (2001 - 30%). The differences are reconciled below:

	10 months to 30 September 02	*Year to 30 November 01*
	£	*£*
(Loss)/profit on ordinary activities before taxation	(161,362)	559,744
Profit/(loss) on ordinary activities by rate of tax	(47,963)	167,923
Non taxable income	(99,570)	9,889
Depreciation in excess of capital allowances	5,288	12,157
Other timing differences	(29,536)	(805)
Adjustments in respect of previous periods	(350,062)	–
Unrelieved tax losses	171,757	–
Non trade charges unavailable for carry forward	24	–
Total current tax (note 8(a))	(350,062)	189,164

(c) Deferred tax

Deferred tax assets recognised in the financial statements and the amounts not provided are as follows:

	30 September 02		*30 November 01*	
	Provided	*Not provided*	*Provided*	*Not provided*
	£	*£*	*£*	*£*
Depreciation in advance of capital allowances	8,846	–	–	3,559
Tax losses available	281,969	–	–	–
Other timing differences	18,751	–	–	48,287
Deferred tax asset	309,566	–	–	51,846

	£
At 1 December 2001	-
Profit and Loss Account credit during the period	309,566
At 30 September 2002	309,566

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Notes to the financial statements
at 30 September 2002

9. Tangible fixed assets

	Short Leasehold Improvements £	*Plant & Equipment* £	*Furniture* £	*Total* £
Cost:				
At 1 December 2001 and 30 September 2002	119,472	383,120	100,791	603,383
Depreciation:				
At 1 December 2001	67,717	314,981	72,407	455,105
Provided during the period	9,702	36,845	6,147	52,694
At 30 September 2002	77,419	351,826	78,554	507,799
Net book value:				
At 30 September 2002	42,053	31,294	22,237	95,584
At 1 December 2001	51,755	68,139	28,384	148,278

10. Stocks

	30 September 02 £	*30 November 01* £
Raw materials	20,437	32,776
Finished goods	201,529	197,819
	221,966	230,595

11. Debtors

	30 September 02 £	*30 November 01* £
Trade debtors	2,095,091	3,638,471
Amounts owed by group undertakings	1,891,805	1,454,066
Corporation tax repayable	369,360	–
Other debtors	800	3,357
Prepayments and accrued income	295,179	335,024
Deferred taxation (note 8)	309,566	–
	4,961,801	5,430,918

Notes to the financial statements
at 30 September 2002

12. Creditors: amounts falling due within one year

	30 September 02 £	30 November 01 £
Trade creditors	175,480	1,544,520
Amounts owed to group undertakings	548,149	1,082,349
Corporation tax	–	52,068
Other taxation and social security	154,925	108,429
Warranty claims accrual	1,040,138	1,375,819
Accruals and deferred income	704,073	974,611
	2,622,765	5,137,796

13. Creditors: amounts falling due after more than one year

	30 September 02 £	30 November 01 £
Other creditors:		
Warranty claims accrual	4,058,100	3,922,919

14. Pensions

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 during the period by the company to the personal pension plans. There was no outstanding balance unpaid at the year end (2001: £Nil).

15. Provisions for liabilities and charges

	30 September 02 £
Claims provisions:	
At 1 December 2001	-
Created during period	750,000
At 30 September 2002	750,000

On 18th March 2003, eight former commercial agents filed a claim against the Company for commissions and compensation allegedly owed to them pursuant to The Commercial Agents (Council Directive) regulations 1993 as a result of the termination of their agencies on 31 August 1998. A provision has been created to cover the director's best estimate of the costs of settling this dispute with ex-agents of the company.

Notes to the financial statements
at 30 September 2002

16. Commitments under operating leases

At 30 September 2002 the company had annual commitments under non-cancellable operating leases as set out below.

	30 September 02		*30 November 01*	
	Land and buildings	*Other*	*Land and buildings*	*Other*
	£	*£*	*£*	*£*
Operating leases which expire:				
Within one year	–	26,242	–	6,815
In two to five years	105,000	62,671	105,000	54,274
	105,000	88,913	105,000	61,089

17. Related party transactions

The company is a wholly owned subsidiary of The Valspar Corporation, the consolidated accounts of which are publicly available. Accordingly, the company has taken advantage of the exemption in FRS 8 from disclosing transactions with members or investees of the The Valspar Corporation group.

18. Share capital

		Authorised
	30 September 02	*30 November 01*
	£	*£*
Ordinary shares of £1 each	2,000	2,000

	Allotted, called up and fully paid			
	30 September 02		*30 November 01*	
	No.	*£*	*No.*	*£*
Ordinary shares of £1 each	2,000	2,000	2,000	2,000

19. Reconciliation of shareholders' funds and movement on reserves

	Share capital	*Profit and loss account*	*Total share-holders' funds*
	£	*£*	*£*
At 1 December 2000	2,000	849,878	851,878
Profit for the year	–	370,580	370,580
At 30 November 2001	2,000	1,220,458	1,222,458
Profit for the period	–	498,266	498,266
At 30 September 2002	2,000	1,718,724	1,720,724

Notes to the financial statements
at 30 September 2002

20. Ultimate parent company

The company's immediate parent undertaking is The Valspar (UK) Holding Corporation Limited, a company registered in England and Wales.

In the directors' opinion the company's ultimate parent company and controlling party is The Valspar Corporation Inc, which is incorporated in the United States of America. Copies of its group accounts, which include the company are available from:

1101 South Third Street
Minneapolis
Minnesota 55122
United States of America