

RAPESCO HOLDINGS PLC
DIRECTORS' REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 MAY 2004



er: 4756851

RAPESCO HOLDINGS PLC

REPORT OF THE DIRECTORS

For the year ended 31 May 2004

FINANCIAL STATEMENTS

The directors submit their report and group financial statements for the year ended 31 May 2004.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company or group will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group 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.

PRINCIPAL ACTIVITIES

The principal activity of the company is a holding company. The group is focused on the manufacturing and distribution of office products and industrial and light industrial tools.

BUSINESS REVIEW

There has been no significant change in the group's activities during the year and the directors are pleased with the trading performance. The directors view the future with cautious optimism.

RESULTS

The profit of the group after taxation for the year ended 31 May 2004 amounted to £163,338 (2003 - £110,180).

DIVIDENDS

The following interim dividends have been paid:

	<u>Year ended</u> <u>31 May 2004</u>	<u>Year ended</u> <u>31 May 2003</u>
	£	£
'B' Ordinary shares	<u>£50,000</u>	<u>£50,000</u>

No final dividend is to be paid on the ordinary share capital of the company.

RAPESCO HOLDINGS PLC
REPORT OF THE DIRECTORS
For the year ended 31 May 2004

(continued)

CORPORATE RESTRUCTURING

During the period, the Group carried out a corporate restructuring, including the introduction of a new holding company to provide greater strategic and financial flexibility and a capital structure more appropriate to its needs.

The new holding company was incorporated under the name of Tunco (2003) 108 Limited and registered in England and Wales with registered number 4756851 on 8 May 2003. On 21 October 2003, its name was changed to Rapesco Holdings Plc and it was converted from a Limited Company to a Public Limited Company.

On 1 June 2003, Rapesco Holdings Plc acquired the entire issued share capital of Rapesco Office Products Plc (formerly Rapesco Group Plc) in a share for share exchange. Also on 1 June 2003, Rapesco Holdings Plc acquired the entire issued ordinary share capital of Rapesco Group Plc (formerly Tunco (2003) 107 Limited) in a transaction effected by the issue of £12,500 cash and £37,500 of inter company debt.

SUPPLIER PAYMENT POLICY

The group agrees payment terms with suppliers at the time of entering into a transaction. These payment terms form part of the contract for the supply of goods or services and the group adheres to such terms, subject to satisfactory completion of the relevant transaction. The group had 79 days purchases outstanding at 31 May 2004 (2003 - 80 days).

DIRECTORS' INTERESTS

The directors who held office during the period and their interests in the company's share capital throughout the period ended 31 May 2004:-

	<u>Ordinary shares</u>	<u>'A' ordinary shares</u>	<u>'B' ordinary shares</u>	<u>'C' ordinary shares</u>
<u>Beneficial Holdings</u>				
Miss S S James	91,150	-	2	-
D J S James	91,150	2	-	-
A M Frost	-	-	-	-
N T Ward	-	-	-	-
<u>Trust Holdings</u>				
Miss S S James and D J S James	67,400	-	-	2

CHH Formations Limited resigned as director on 1 June 2003. All directors shown above were appointed on 23 May 2003.

RAPESCO HOLDINGS PLC
REPORT OF THE DIRECTORS
For the year ended 31 May 2004

(continued)

AUDITORS

On 31 December 2003, BDO Stoy Hayward, the company's auditors, transferred its business to BDO Stoy Hayward LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. Accordingly, BDO Stoy Hayward resigned as auditors on that date and the directors appointed BDO Stoy Hayward LLP as its successor. A resolution to appoint BDO Stoy Hayward LLP as auditors will be proposed at the next annual general meeting.

This report was approved by the Board on 21 December 2004

BY ORDER OF THE BOARD



N WARD
Company Secretary

REGISTERED OFFICE
Rapesco House
One Connections Business Park
Otford Road
Sevenoaks
Kent TN14 5DF

RAPESCO HOLDINGS PLC

Report of the independent auditors

To the shareholders of Rapesco Holdings Plc

We have audited the financial statements of Rapesco Holdings Plc for the year ended 31 May 2004 on pages 6 to 20 which have been prepared under the accounting policies set out on pages 10 and 11.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

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 group 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 group is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised 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.

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 group'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.

RAPESCO HOLDINGS PLC

Report of the independent auditors

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the group and company as at 31 May 2004 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward LLP

BDO STOY HAYWARD LLP

*Chartered Accountants
and Registered Auditors*

Northside House
69 Tweedy Road
Bromley
BR1 3WA

22 December 2004

RAPESCO HOLDINGS PLC
CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 May 2004

	<u>Notes</u>	<u>Year ended</u> <u>31 May 2004</u>	<u>Year ended</u> <u>31 May 2003</u>
		£	£
TURNOVER	2 & 3	14,112,912	14,780,162
Change in stocks of finished goods and work in progress		136,006	(333,285)
Raw materials and consumables, direct costs, carriage and packaging		8,374,431	10,152,770
		<u>8,510,437</u>	<u>9,819,485</u>
Operating costs		5,104,535	4,581,106
Interest payable and similar charges		<u>225,244</u>	<u>214,524</u>
		<u>13,840,216</u>	<u>14,615,115</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	4	272,696	165,047
Tax on profit on ordinary activities	5	<u>109,358</u>	<u>54,867</u>
PROFIT FOR THE FINANCIAL YEAR	15	163,338	110,180
Dividends	6	<u>50,000</u>	<u>50,000</u>
RETAINED PROFIT FOR THE YEAR TRANSFERRED TO RESERVES		<u>£113,338</u>	<u>£60,180</u>

During the period, the Group carried out a restructuring including the introduction of a new holding company. The profit and loss account has been prepared using merger accounting and is presented on a pro forma basis as if the new holding company had been in existence throughout both the current and prior periods. Further information is given in note 1 on page 10. The consolidated profit and loss account from the date of incorporation of the new holding company is no different from the figures as shown for the year ended 31 May 2004.

The group had no recognised gains or losses in either period other than the profits shown above.

CONTINUING OPERATIONS

All results relate to continuing activities.


Notes on page 10 to 20 are an integral part of this consolidated profit and loss account.

RAPESCO HOLDINGS PLC
CONSOLIDATED BALANCE SHEET

As at 31 May 2004

	<u>Notes</u>	<u>31 May 2004</u> £	£	<u>31 May 2003</u> £	£
FIXED ASSETS					
Tangible fixed assets	7		554,882		581,798
CURRENT ASSETS					
Stocks	9	2,315,486		2,451,492	
Debtors	10	3,074,862		3,365,032	
Cash at bank and in hand		268		669	
		<u>5,390,616</u>		<u>5,817,193</u>	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	11	<u>(3,863,424)</u>		<u>(4,376,131)</u>	
NET CURRENT ASSETS			<u>1,527,192</u>		<u>1,441,062</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			2,082,074		2,022,860
CREDITORS: Amounts falling due after more than one year	12		<u>(182,448)</u>		<u>(236,572)</u>
NET ASSETS			<u>£1,899,626</u>		<u>£1,786,288</u>
CAPITAL AND RESERVES					
Called up share capital	13		249,700		249,700
Other reserves	14		300		300
Profit and loss account	14		<u>1,649,626</u>		<u>1,536,288</u>
EQUITY SHAREHOLDERS' FUNDS	15		<u>£1,899,626</u>		<u>£1,786,288</u>

Approved by the board of directors on 21 December 2004


DLS JAMES
DIRECTOR


The notes on pages 10 to 20 form an integral part of this consolidated balance sheet.

RAPESCO HOLDINGS PLC
COMPANY BALANCE SHEET

As at 31 May 2004

	<u>Notes</u>	<u>31 May 2004</u>
		£ £
FIXED ASSETS		
Investments	8	299,700
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	11	<u>50,000</u>
NET CURRENT LIABILITIES		<u>50,000</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		249,700
NET ASSETS		<u><u>£249,700</u></u>
CAPITAL AND RESERVES		
Called up share capital	13	<u>249,700</u>
EQUITY SHAREHOLDERS' FUNDS	15	<u><u>£249,700</u></u>

Approved by the board of directors on 21 December 2004


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DJS JAMES
DIRECTOR

The notes on pages 10 to 20 form an integral part of this balance sheet.

RAPESCO HOLDINGS PLC

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 May 2004

	<u>Notes</u>	<u>Year ended</u> <u>31 May 2004</u>	£	<u>Year ended</u> <u>31 May 2003</u>	£
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	18		1,372,172		(162,014)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest element of finance lease rental payments		(8,892)		(4,484)	
Interest paid		(216,352)		(210,040)	
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			(225,244)		(214,524)
TAXATION					
Corporation tax paid			(57,393)		(87,359)
CAPITAL EXPENDITURE					
Payments to acquire tangible fixed assets		(70,091)		(84,483)	
Receipts from sale of tangible fixed assets		-		12,500	
NET CASH OUTFLOW FROM INVESTING ACTIVITIES			(70,091)		(71,983)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING			1,019,444		(535,880)
EQUITY DIVIDENDS PAID			(50,000)		(50,000)
FINANCING					
New loans		45,000		23,364	
Repayment of loans		(67,291)		(60,000)	
Purchase of own shares		-		(10,000)	
Capital element of finance lease rental payments		(96,624)		(44,698)	
NET CASH OUTFLOW FROM FINANCING			(118,915)		(91,334)
INCREASE/(DECREASE) IN CASH IN YEAR	19 & 20		<u>£850,529</u>		<u>£(677,214)</u>

The notes on pages 10 to 20 form an integral part of this cash flow

RAPESCO HOLDINGS PLC

NOTES TO THE ACCOUNTS

31 May 2004

1. CORPORATE RESTRUCTURING

On 1 June 2003, Rapesco Holdings Plc acquired the entire issued share capital of both Rapesco Office Products Plc (formerly Rapesco Group Plc) and Rapesco Group Plc (formerly Tunco (2003) 107 Limited). These acquisitions formed part of a corporate restructuring and have been accounted for using the merger accounting principles set out in Financial Reporting Standard 6. Accordingly, the financial information for the current period has been presented, and that for the prior year restated, as if Rapesco Group Plc and Rapesco Office Products Plc had been owned by Rapesco Holdings Plc throughout the current and comparative accounting periods.

2. ACCOUNTING POLICIES

(a) Basis of accounting

These financial statements have been prepared under the historical cost accounting convention and in accordance with applicable accounting standards.

(b) Turnover

Turnover represents the amount receivable, excluding value added tax, for goods and services invoiced to customers outside the group.

(c) Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation is calculated to write off the cost of each fixed asset over its expected useful life on the following bases:-

Fixtures, fittings and office equipment	-	on original cost over 5 to 10 years
Plant and machinery	-	on original cost over 5 to 10 years
Vehicles	-	on reducing balance at 25% per annum on written down value
Short leasehold property	-	on original cost over period of lease

(d) Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is calculated on the weighted average basis. Net realisable value is calculated as the estimated sale proceeds less all further costs to completion and less attributable costs of selling and distribution.

(e) Basis of consolidation

The group accounts include the accounts of the company and those of its subsidiaries, all of which are made up to 31 May 2004.

(f) Foreign currencies

Transactions denominated in foreign currencies are converted at the rates ruling at the date of the transaction. Monetary assets and liabilities at the year end are translated at the year end rate. Differences in exchange rates are dealt with in the profit and loss account.

RAPESCO HOLDINGS PLC

NOTES TO THE ACCOUNTS

31 May 2004

(continued)

2. ACCOUNTING POLICIES (continued)

(g) Investments

Fixed asset investments are shown at cost less provision for impairment.

(h) Taxation

UK corporation tax is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances arising from underlying timing differences in respect of tax allowances on industrial buildings are reversed if and when all conditions for retaining those allowances have been met. Deferred tax balances are not discounted.

(i) Pension

The company operates defined contribution schemes. The amount charged to the profit and loss account in respect of pension costs and other post retirement benefits is the contributions payable in the year. Differences between the profit and loss account charge, and the contributions actually paid are shown as either accruals or prepayments in the balance sheet.

(j) Leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding.

Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

(k) Operating leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

3. TURNOVER

Turnover arises from one class of business. No disclosure of geographical markets has been given as the directors consider this would be seriously prejudicial to the interests of the company.

RAPESCO HOLDINGS PLC

NOTES TO THE ACCOUNTS

31 May 2004

(continued)

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging/(crediting):

	Year ended 31 May 2004 £	Year ended 31 May 2003 £
Directors' emoluments (Note 17)	562,067	416,978
Depreciation of owned assets	145,797	157,742
Depreciation of leased assets	37,150	25,294
Hire of plant and machinery - operating leases	119,076	178,114
Other operating leases - land and buildings	162,000	162,000
Interest payable on bank overdraft/loans wholly repayable within five years	113,467	112,812
Interest payable on finance leases	8,892	4,484
Interest payable on other loans	7,200	8,860
Other interest payable	95,685	88,368
Auditors' remuneration for audit services	19,000	16,500
Auditors' remuneration for non- audit services	9,900	17,553
Loss on disposal of fixed assets	613	7,242
Exchange loss/(gain)	74,293	(30,491)
	<u> </u>	<u> </u>

5. TAXATION

	Year ended 31 May 2004 £	Year ended 31 May 2003 £
UK Corporation tax	106,832	54,867
Prior year underprovision	2,526	-
	<u>109,358</u>	<u>54,867</u>

The tax assessed for the period is higher than the standard rate of corporation tax in the UK.
The differences are explained below.

Profit on ordinary activities before tax	<u>£272,696</u>	<u>£165,047</u>
Multiplied by the standard rate of corporation tax in the UK of 30%	81,809	49,514
Effects of:		
Expenses not deductible for tax purposes	15,639	28,907
Tax relief on finance lease payments	(4,150)	(6,324)
Depreciation for period in excess of capital allowances	17,159	14,534
Marginal relief	(3,625)	-
Adjustment for small companies rate	-	(31,764)
Prior year underprovision	2,526	-
Current tax charge for period	<u>£109,358</u>	<u>£54,867</u>

RAPESCO HOLDINGS PLC
NOTES TO THE ACCOUNTS

31 May 2004

(continued)

6. DIVIDENDS PAID AND PROPOSED

	Year ended 31 May 2004 £	Year ended 31 May 2003 £
Interim paid:		
£25,000 (2003 - £25,000) per 'B' Ordinary share	£50,000	£50,000

7. TANGIBLE FIXED ASSETS

	Leasehold property £	Fixtures, fittings & office equipment £	Plant, machinery & vehicles £	Total £
COST				
At 1 June 2003	155,278	653,207	1,055,684	1,864,169
Additions	-	11,579	145,065	156,644
Disposals	-	-	(7,476)	(7,476)
At 31 May 2004	155,278	664,786	1,193,273	2,013,337
DEPRECIATION				
At 1 June 2003	86,609	574,234	621,528	1,282,371
Charge for the period	6,211	32,753	143,983	182,947
Disposals	-	-	(6,863)	(6,863)
At 31 May 2004	92,820	606,987	758,648	1,458,455
NET BOOK VALUE				
Owned assets	-	47,344	343,806	391,150
Leased assets	62,458	10,455	90,819	163,732
At 31 May 2004	£62,458	£57,799	£434,625	£554,882
Owned assets	-	63,125	311,579	374,704
Leased assets	68,669	15,848	122,577	207,094
At 31 May 2003	£68,669	£78,973	£434,156	£581,798

The tangible fixed assets relate to the group. The company holds no tangible fixed assets.

RAPESCO HOLDINGS PLC

NOTES TO THE ACCOUNTS

31 May 2004

(continued)

8. FIXED ASSET INVESTMENTS

Cost and net book value

	£
At 8 May 2003	-
Acquisitions	299,700
At 31 May 2004	<u>£299,700</u>

On 1 June 2003, the company acquired the entire issued share capital of the following companies:

Name	Country of incorporation	Proportion of share capital held	Principal activity
RapESCO Office Products Plc	England	100%	Staplers and Perforators
RapESCO Group Plc	England	100%	Light and industrial fixings and fastenings
Tunco (2003) 106 Limited*	England	100%	Distribution of Office machinery
RapESCO Limited*	England	100%	Dormant
Stapling Centre Limited*	England	100%	Dormant

* These companies are subsidiaries held indirectly by RapESCO Holdings Plc.

9. STOCKS

	<u>31 May 2004</u>	<u>Group</u>	<u>31 May 2003</u>
	£		£
Spare parts	15,850		69,911
Finished goods	2,299,636		2,381,581
	<u>£2,315,486</u>		<u>£2,451,492</u>

10. DEBTORS

	<u>31 May 2004</u>	<u>Group</u>	<u>31 May 2003</u>
	£		£
Trade debtors	2,499,572		2,745,223
Other debtors	217,087		200,243
Prepayments and accrued income	358,203		419,566
	<u>£3,074,862</u>		<u>£3,365,032</u>

All amounts fall due for repayment within one year.

RAPESCO HOLDINGS PLC

NOTES TO THE ACCOUNTS

31 May 2004

(continued)

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>31 May 2004</u>	<u>Group</u> <u>31 May 2003</u>
	£	£
Bank loan and overdraft (secured)	838,486	1,689,416
Trade creditors	2,184,115	2,053,161
Other taxation and social security	217,773	146,298
Accruals and deferred income	389,571	327,504
Corporation tax payable	106,832	54,867
Lease payments due	78,949	49,896
Other loans	47,698	54,989
	<u>£3,863,424</u>	<u>£4,376,131</u>

The bank loan and overdraft are secured by a fixed and floating charge over the assets of the group companies.

Other loans represent amounts due to shareholders. These loans are unsecured and interest is payable at 2 ½% above the Bank of England base rate.

Company creditors of £50,000 are represented by amounts owed to group undertakings.

12. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	<u>31 May 2004</u>	<u>Group</u> <u>31 May 2003</u>
	£	£
Bank loan (secured) repayable by instalments	70,000	85,000
Loan (unsecured) repayment due after 2005	70,000	70,000
Lease payments due	42,448	81,572
	<u>£182,448</u>	<u>£236,572</u>

	<u>Group</u>			
	<u>31 May 2004</u>		<u>31 May 2003</u>	
	Bank <u>loan</u>	Finance <u>leases</u>	Bank <u>loan</u>	Finance <u>leases</u>
	£	£	£	£
In less than one year	60,000	78,949	60,000	49,896
In more than one year but not more than two years	60,000	36,951	60,000	52,292
In more than two years but not more than five years	10,000	5,497	25,000	29,280
	<u>£130,000</u>	<u>£121,397</u>	<u>£145,000</u>	<u>£131,468</u>

The terms of repayment are:-

Bank loan (secured) - £5,000 per month with interest at base plus 2.75%.
Loan (unsecured) - No repayments with interest at base plus 3%.

RAPESCO HOLDINGS PLC
NOTES TO THE ACCOUNTS

31 May 2004

(continued)

13. CALLED UP SHARE CAPITAL

	<u>31 May 2003</u> £
Authorised:	
249,700 Ordinary shares of £1 each	249,700
2 'A' Ordinary shares of 5p each	-
2 'B' Ordinary shares of 5p each	-
2 'C' Ordinary shares of 5p each	-
2 'D' Ordinary shares of 5p each	-
	<u>£249,700</u>
Allotted, called up and fully paid:	
249,700 Ordinary shares of £1 each	249,700
2 'A' Ordinary shares of 5p each	-
2 'B' Ordinary shares of 5p each	-
2 'C' Ordinary shares of 5p each	-
	<u>£249,700</u>

On 8 May 2003, the date of incorporation of the company, the company's authorised share capital comprised of 1,000 ordinary shares of £1 each. At this date, 1 ordinary share of £1 had been allotted.

On 1 June 2003, the shareholders issued a special resolution to increase the authorised share capital to that disclosed above and to create four additional classes of share capital. Also on 1 June 2003, the company issued 249,699 ordinary shares of £1 each, 2 'A' ordinary shares of £0.05 each, 2 'B' ordinary shares of £0.05 each and 2 'C' ordinary shares of £0.05 each in exchange for the entire issued share capital of Rapesco Office Products Plc (see Note 8).

The ordinary shares, 'A' ordinary shares, 'B' ordinary shares, 'C' ordinary shares and 'D' ordinary shares rank pari passu in all respects, with the exception of the following:

- (i) directors may declare and pay dividends which vary from class to class and in frequency between each class of shares. However, all dividends are paid pari passu to all shares within any individual class of shares; and
- (ii) on a winding up, the holders of the 'A' shares, 'B' shares and 'C' shares are excluded from any participation in the capital or the assets of the company.

14. RESERVES

	<u>Other reserves</u> £	<u>Group</u> <u>Profit and loss</u> £
Shareholders' funds		
1 June 2003	300	1,536,288
Profit for the financial period	-	113,338
31 May 2004	<u>£300</u>	<u>£1,649,626</u>

RAPESCO HOLDINGS PLC
NOTES TO THE ACCOUNTS

31 May 2004

(continued)

15. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	<u>Group</u>		<u>Company</u>
	<u>31 May 2004</u>	<u>31 May 2003</u>	<u>31 May 2004</u>
	£	£	£
Shareholders' funds			
1 June 2003	1,786,288	1,736,108	249,700
Profit for the financial period	163,338	110,180	50,000
Dividend payable	(50,000)	(50,000)	(50,000)
31 May 2004	<u>£1,899,626</u>	<u>£1,786,288</u>	<u>£249,700</u>

16. PARTICULARS OF EMPLOYEES

The average number of persons employed by the group (including Directors) during the period was:-

	<u>Year ended</u> <u>31 May 2004</u>	<u>Year ended</u> <u>31 May 2003</u>
Category:		
Administration	13	17
Warehousing and distribution	13	15
Selling	36	39
Direct manufacturing	4	4
	<u>66</u>	<u>75</u>

Their total remuneration was:-

	<u>£</u>	<u>£</u>
Wages and salaries	1,933,384	1,905,182
Social security costs	209,328	188,944
Other pension costs	79,832	87,314
	<u>£2,222,544</u>	<u>£2,181,440</u>

17. DIRECTORS' EMOLUMENTS

	<u>Year ended</u> <u>31 May 2004</u>	<u>17 months ended</u> <u>31 May 2002</u>
	£	£
Directors' remuneration for executive services (excluding pension contributions)	<u>£562,067</u>	<u>£416,978</u>
Emoluments of the highest paid director (excluding pension contributions)	<u>£342,465</u>	<u>£228,427</u>

The number of directors who were members of a money purchase pension scheme was 4 (31 May 2003 - 4). Payment of employer's contributions to the scheme in the period was £42,294 (31 May 2003 - £42,294). The employer's contributions in respect of the highest paid director were £20,000 (31 May 2003 - £20,000).

RAPESCO HOLDINGS PLC

NOTES TO THE ACCOUNTS

31 May 2004

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18. RECONCILIATION OF OPERATING PROFIT TO NET CASH (OUTFLOW)/ INFLOW FROM OPERATING ACTIVITIES

	Year ended 31 May 2004 £	Year ended 31 May 2003 £
Operating profit	497,940	379,571
Depreciation	182,947	183,036
Decrease/(increase) in stocks	136,006	(333,285)
Decrease in debtors	290,170	882,864
Increase/(decrease) in creditors	264,496	(1,281,442)
Loss on disposal of fixed assets	613	7,242
Net cash inflow/(outflow) from operating activities	<u>£1,372,172</u>	<u>£(162,014)</u>

19. RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET DEBT

Increase in cash for the period	850,529	
Cash outflow from decrease in loan and lease financing	118,915	
Change in net debt resulting from cashflow	<u>969,444</u>	
New finance leases	<u>(86,553)</u>	
		<u>£882,891</u>
Net debt at 31 May 2003	(2,030,204)	
Net debt at 31 May 2004	<u>(1,147,313)</u>	
Movement in net debt in the period		<u>£882,891</u>

20. ANALYSIS OF CHANGE IN NET DEBT

	31 May 2003 £	Cashflow £	Other non- cash changes £	31 May 2004 £
Cash at bank and in hand	669	(401)	-	268
Overdraft	(1,629,416)	850,930	-	(778,486)
Debt due within 1 year	(114,989)	7,291	-	(107,698)
Debt due after 1 year	(155,000)	15,000	-	(140,000)
Obligations under finance leases	(131,468)	96,624	(86,553)	(121,397)
Total	<u>£(2,030,204)</u>	<u>£969,444</u>	<u>£(86,553)</u>	<u>£(1,147,313)</u>

RAPESCO HOLDINGS PLC
NOTES TO THE ACCOUNTS

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21. CONTINGENT LIABILITIES AND COMMITMENTS ON BEHALF OF GROUP COMPANIES

- (a) The subsidiary companies have given unlimited guarantees and unlimited debentures to the bankers of Rapesco Office Products Plc. The maximum liability at 31 May was £908,486.
- (b) There is a VAT election and each trading company in the group is jointly and severally liable for the whole of the group's VAT liability. The maximum liability at 31 May was £149,801.
- (c) The group operates two defined contribution schemes, one is for the benefit of the directors and the other for the employees. The assets of the schemes are held separately from those of the group in independently administered funds. The pension cost charge represents contributions payable by the company to the funds. The pension cost charged to the profit and loss account for the period amounted to £79,832 (2003 - £87,314).

22. FINANCIAL COMMITMENTS

	<u>Finance leases</u>	
	Year ended 31 May 2004	Year ended 31 May 2003
	£	£
Due/expires:		
Within one year	78,949	49,896
Between two and five years	42,448	81,572
	£121,397	£131,468

These finance leases are secured on the assets to which they relate.

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

	<u>Operating leases</u>			
	31 May 2004		31 May 2003	
	<u>Plant & equipment</u>	<u>Land & buildings</u>	<u>Plant & equipment</u>	<u>Land & buildings</u>
	£	£	£	£
Annual rents on operating leases expiring:				
Within one year	36,385	-	2,725	-
Between two and five years	63,273	-	109,280	-
After five years	-	162,000	-	162,000
	£99,658	£162,000	£112,005	£162,000

RAPESCO HOLDINGS PLC

NOTES TO THE ACCOUNTS

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23. CORPORATE RESTRUCTURING

As explained in the accounting policies, on 1 June 2003, Rapesco Holdings Plc acquired the entire issued share capital of both Rapesco Office Products Plc (formerly Rapesco Group Plc) and Rapesco Group Plc (formerly Tunco (2003) 107 Limited). The acquisition of Rapesco Office Products Plc was effected by a share for share exchange, whereby 249,700 ordinary shares of £1 each, 2 'A' ordinary shares of £0.05 each, 2 'B' ordinary shares of £0.05 each and 2 'C' ordinary shares of £0.05 each in Rapesco Holdings Plc were issued in exchange for the same in Rapesco Office Products Plc. The acquisition of Rapesco Group Plc was effected through the issue of £50,000 shares by Rapesco Group Plc, all of which were purchased by Rapesco Holdings Plc through the payment of £12,500 of cash and £37,500 of inter-company debt.

These acquisitions formed part of a corporate restructuring and accordingly have been accounted for using the merger accounting principles set out in Financial Reporting Standard 6. The financial information for the current period has been presented, and that for the prior periods restated, as if Rapesco Group Plc and Rapesco Office products Plc had been owned by Rapesco Holdings Plc throughout the current and prior accounting periods.

The book value of net assets at the time of the merger were as shown below. There were no merger adjustments to be made to these net assets.

	Book value of net assets On 1 June 2003 £
Rapesco Office Products Plc	2,006,893
Rapesco Group Plc*	(269,203)

* The book value of net liabilities of Rapesco Group Plc represent the consolidated net liabilities of Rapesco Group plc and its subsidiary undertaking Tunco (2003) 106 Limited.

24. COMPANY PROFIT AND LOSS ACCOUNT

No profit and loss account has been prepared for Rapesco Holdings Plc as permitted by Section 230 of the Companies Act 1985. The company has not traded in the period to 31 May 2004 and accordingly its profit for that period is £nil.

25. RELATED PARTY TRANSACTIONS

At 31 May 2004 and 31 May 2003, the group owed £70,000 to the pension fund of which certain of the directors are beneficiaries, under an unsecured loan. Interest of £4,710 was charged on this loan during the period (2003 - £4,900).

A loan has been made to the group by Miss S S James. At 31 May 2004, £43,532 remained on the loan, payable to Miss S S James and classified within short term creditors (31 May 2003-£54,989). Interest of £11,000 payable to Miss S S James has been charged on this loan during the year (31 May 2003 - £3,960).