

Company Registration No. 1594736 (England and Wales)

SECOND NATURE LIMITED
ABBREVIATED ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2002



SECOND NATURE LIMITED

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SECOND NATURE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2002

The directors present their report and financial statements for the year ended 31 December 2002.

Principal activities and review of the business

The principal activities of the company are that of the publishing, wholesale and distribution of greetings cards.

The directors consider the results for the year to be disappointing, although these were in line with expectations. Remedial action started in late 2001 and is expected to return the company to profitability in 2003. Trading to April 2003 is in line with this profitable forecast.

Results and dividends

The results for the year are set out on page 4.

The directors do not recommend payment of an ordinary dividend.

Directors

The following directors have held office since 1 January 2002:

T. Schragger
R. Schragger

Directors' interests

The directors' interests in the shares of the company were as stated below:

	Ordinary shares of £ 1 each	
	31 December 2002	1 January 2002
T. Schragger	70,850	4,183
R. Schragger	71,519	4,852

	Cumulative convertible preference shares of £ 1 each	
	31 December 2002	1 January 2002
T. Schragger	-	-
R. Schragger	-	-

The following director also held options throughout the period to purchase ordinary shares of the company as follows:

T. Schragger: 1,200 at £20 per share between 10 August 1996 and 9 August 2003.

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Morley and Scott be reappointed as auditors of the company will be put to the Annual General Meeting.

SECOND NATURE LIMITED

DIRECTORS' REPORT (CONTINUED) **FOR THE YEAR ENDED 31 DECEMBER 2002**

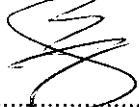
Directors' responsibilities

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 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;
- 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.

On behalf of the board



.....
T. Schragger

Director

.....21/05/02.....

SECOND NATURE LIMITED

INDEPENDENT AUDITORS' REPORT TO SECOND NATURE LIMITED UNDER SECTION 247B OF THE COMPANIES ACT 1985

We have examined the abbreviated accounts set out on pages 4 to 15, together with the financial statements of the company for the year ended 31 December 2002 prepared under section 226 of the Companies Act 1985.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the abbreviated accounts in accordance with section 246A of the Companies Act 1985. It is our responsibility to form an independent opinion as to whether the company is entitled to deliver abbreviated accounts prepared in accordance with section 246A(3) of the Act to the Registrar of Companies and whether the accounts to be delivered are properly prepared in accordance with that provision and to report our opinion to you.

Basis of audit opinion

We have carried out the procedures we considered necessary to confirm, by reference to the financial statements, that the company is entitled to deliver abbreviated accounts and that the abbreviated accounts to be delivered are properly prepared. The scope of our work for the purpose of this report did not include examining or dealing with events after the date of our report on the financial statements.

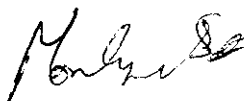
Opinion

In our opinion the company is entitled to deliver abbreviated accounts prepared in accordance with section 246A(3) of the Companies Act 1985, and the abbreviated accounts on pages 4 to 15 are properly prepared in accordance with that provision.

Other information

On 12 June 2003 we reported, as auditors of Second Nature Limited, to the members on the financial statements prepared under section 226 of the Companies Act 1985 for the year ended 31 December 2002, and our audit report included the following paragraph:

"In forming our opinion we have considered the adequacy of the disclosures made in note 1.3 of the financial statements concerning the application of the going concern basis to these financial statements. In view of the significance of this matter we consider that these disclosures should be brought to your attention, although our opinion is not qualified in this respect."



Morley and Scott

12 June 2003

Chartered Accountants
Registered Auditor

Lynton House
7-12 Tavistock Square
London
WC1H 9LT

SECOND NATURE LIMITED

ABBREVIATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	2002 £	2001 £
Gross profit		1,964,693	2,082,811
Distribution costs		(776,139)	(1,256,775)
Administrative expenses		(1,512,074)	(1,597,307)
Operating loss	2	(323,520)	(771,271)
Interest payable and similar charges	3	(104,547)	(125,620)
Loss on ordinary activities before taxation		(428,067)	(896,891)
Tax on loss on ordinary activities	4	(13,701)	(867)
Loss on ordinary activities after taxation	11	(441,768)	(897,758)

SECOND NATURE LIMITED

ABBREVIATED BALANCE SHEET AS AT 31 DECEMBER 2002

	Notes	2002 £	£	2001 £	£
Fixed assets					
Tangible assets	5		74,962		234,586
Investments			-		421
			<u>74,962</u>		<u>235,007</u>
Current assets					
Stocks	6	748,633		785,411	
Debtors	7	932,155		1,009,085	
Cash at bank and in hand		201,870		2,233	
		<u>1,882,658</u>		<u>1,796,729</u>	
Creditors: amounts falling due within one year	8	(1,389,720)		(2,870,608)	
Net current assets/(liabilities)			<u>492,938</u>		<u>(1,073,879)</u>
Total assets less current liabilities			<u>567,900</u>		<u>(838,872)</u>
Creditors: amounts falling due after more than one year	9		(508,758)		(60,218)
			<u>59,142</u>		<u>(899,090)</u>
Capital and reserves					
Called up share capital	10		1,350,036		16,702
Share premium account	11		518,764		452,098
Profit and loss account	11		(1,809,658)		(1,367,890)
Shareholders' funds	12		<u>59,142</u>		<u>(899,090)</u>
Equity interests			(1,140,858)		(899,090)
Non-equity interests			1,200,000		-
			<u>59,142</u>		<u>(899,090)</u>

These abbreviated accounts have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to medium-sized companies.

The financial statements were approved by the Board on 21/5/03.


T. Schragger
Director


R. Schragger
Director

SECOND NATURE LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2002

	2002		2001	
	£	£	£	£
Net cash (outflow)/inflow from operating activities		(153,844)		98,101
Returns on investments and servicing of finance				
Interest paid	(104,547)		(125,620)	
Net cash outflow for returns on investments and servicing of finance		(104,547)		(125,620)
Taxation		(13,701)		(8,946)
Capital expenditure				
Payments to acquire tangible assets	(9,306)		(45,983)	
Receipts from sales of tangible assets	6,877		10,196	
Net cash outflow for capital expenditure		(2,429)		(35,787)
Net cash outflow before management of liquid resources and financing		(274,521)		(72,252)
Financing				
Issue of ordinary share capital	200,000		-	
Issue of preference share capital	1,200,000		-	
Issue of shares	1,400,000		-	
New long term bank loan	573,942		-	
Capital element of finance lease contracts	(30,210)		(28,989)	
Increase/decrease) in debt	543,732		(28,989)	
Net cash inflow/(outflow) from financing		1,943,732		(28,989)
Increase/(decrease) in cash in the year		1,669,211		(101,241)

SECOND NATURE LIMITED

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2002

1	Reconciliation of operating loss to net cash (outflow)/inflow from operating activities	2002		2001	
		£		£	
	Operating loss	(323,520)		(771,271)	
	Depreciation of tangible assets	161,066		144,914	
	Loss/(profit) on disposal of tangible assets	1,408		(4,311)	
	Decrease in stocks	36,778		425,884	
	Decrease in debtors	71,151		293,709	
	(Decrease)/Increase in creditors within one year	(100,727)		9,176	
	Net cash (outflow)/inflow from operating activities	(153,844)		98,101	
2	Analysis of net debt	1 January 2002	Cash flow	Other non-cash changes	31 December 2002
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	2,233	199,637	-	201,870
	Bank overdrafts	(1,469,574)	1,469,574	-	-
		<u>(1,467,341)</u>	<u>1,669,211</u>	<u>-</u>	<u>201,870</u>
	Debt:				
	Finance leases	(84,963)	30,210	-	(54,753)
	Debts falling due within one year	-	(100,000)	-	(100,000)
	Debts falling due after one year	-	(473,942)	-	(473,942)
		<u>(84,963)</u>	<u>(543,732)</u>	<u>-</u>	<u>(628,695)</u>
	Net debt	(1,552,304)	1,125,479	-	(426,825)
3	Reconciliation of net cash flow to movement in net debt	2002		2001	
		£		£	
	Increase/(decrease) in cash in the year	1,669,211		(101,241)	
	Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	(543,732)		28,989	
	Change in net debt resulting from cash flows	1,125,479		(72,252)	
	New finance lease	-		(63,303)	
	Movement in net debt in the year	1,125,479		(135,555)	
	Opening net debt	(1,552,304)		(1,416,749)	
	Closing net debt	(426,825)		(1,552,304)	

SECOND NATURE LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2002

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable accounting standards.

1.3 Going concern

During the year company converted £1.2 million of their bank overdraft into convertible preference shares (see note 10). The remaining overdraft has been converted into a loan repayable over 5 years (see note 9), with the current account working on a credit basis only.

As a result of these transactions the company has net funds of £59,142 at 31 December 2002, compared with net liabilities of £899,090 at 31 December 2001. Management accounts to 30 April 2003 show that the company has returned to profitability in the period to that date, in line with budgeted expectations. It is considered that the annual budgeted figures will be met for the remainder of the year ended 31 December 2003.

Subsequent to the year end, the company has also obtained an invoice discounting facility to assist with its cash flow arrangements.

On this basis the directors consider that the preparation of these financial statements on the going concern basis is appropriate.

1.4 Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts.

1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Leasehold improvements	Straight line over the life of the lease
Plant and machinery	Straight line over 2-5 years
Fixtures, fittings and equipment	Straight line over 2-4 years
Motor vehicles	Straight line over 2-4 years

1.6 Leasing and hire purchase commitments

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

1.7 Investments

Fixed asset investments are stated at cost less provision for diminution in value.

1.8 Stock and work in progress

Stock and work in progress are valued at the lower of cost and net realisable value.

SECOND NATURE LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2002

1 Accounting policies (continued)

1.9 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

1.10 Group accounts

The financial statements present information about the company as an individual undertaking and not about its group. The company has not prepared group accounts as it is exempt to do so by section 248 of the Companies Act 1985.

2 Operating loss	2002 £	2001 £
Operating loss is stated after charging:		
Depreciation of tangible assets	130,172	144,914
Operating lease rentals	43,699	42,725
Auditors' remuneration	10,000	9,500
Exceptional items	102,492	381,380
Loss/(profit) on disposal of tangible fixed assets	1,408	(4,311)

The exceptional items relate to costs of the refinancing negotiations with the bank £71,598 (2001: £nil), amortisation of leasehold improvements £30,894 (2001: £nil), write off of stock £nil (2001: £221,159) and costs incurred in acquiring more shelf space for new customers £nil (2001: £160,221).

3 Interest payable	2002 £	2001 £
On bank loans and overdrafts	96,813	117,466
Hire purchase interest	7,734	8,154
	104,547	125,620

4 Taxation	2002 £	2001 £
U.K. current year taxation		
U.K. corporation tax	-	(7,779)
Overseas taxation	13,701	6,946
	13,701	(833)
Prior years		
U.K. corporation tax	-	1,700
	13,701	867

The company has estimated losses of £1,000,000 (2001 - £750,000) available for carry forward against future trading profits.

SECOND NATURE LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2002

5 Tangible fixed assets

	Leasehold improvements	Plant and machinery	Fixtures, fittings and equipment	Motor vehicles	Total
	£	£	£	£	£
Cost					
At 1 January 2002	201,757	481,517	173,827	165,869	1,022,970
Additions	-	9,306	-	-	9,306
Disposals	-	-	-	(15,730)	(15,730)
At 31 December 2002	201,757	490,823	173,827	150,139	1,016,546
Depreciation					
At 1 January 2002	144,327	438,035	129,111	76,911	788,384
On disposals	-	-	-	(7,865)	(7,865)
Charge for the year	57,430	44,854	28,136	30,645	161,065
At 31 December 2002	201,757	482,889	157,247	99,691	941,584
Net book value					
At 31 December 2002	-	7,934	16,580	50,448	74,962
At 31 December 2001	57,430	43,482	44,716	88,958	234,586

Included above are assets held under finance leases or hire purchase contracts as follows:

	Motor vehicles £
Net book values	
At 31 December 2002	50,885
At 31 December 2001	88,958
Depreciation charge for the year	
31 December 2002	27,690
31 December 2001	31,941

SECOND NATURE LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2002

6	Stocks and work in progress	2002	2001
		£	£
	Work in progress	210,872	111,842
	Finished goods and goods for resale	537,761	673,569
		<u>748,633</u>	<u>785,411</u>

7	Debtors	2002	2001
		£	£
	Trade debtors	754,058	872,101
	Corporation tax	2,000	7,779
	Other debtors	219	183
	Prepayments and accrued income	175,878	129,022
		<u>932,155</u>	<u>1,009,085</u>

Amounts falling due after more than one year and included in the debtors above are:

	2002	2001
	£	£
Prepayments	-	18,844
	<u>-</u>	<u>18,844</u>

8	Creditors: amounts falling due within one year	2002	2001
		£	£
	Bank loans and overdrafts	100,000	1,469,574
	Net obligations under hire purchase contracts	19,937	24,745
	Trade creditors	810,925	750,676
	Corporation tax	-	5,779
	Other taxes and social security costs	132,243	279,973
	Directors' current accounts	-	154,954
	Accruals and deferred income	326,615	184,907
		<u>1,389,720</u>	<u>2,870,608</u>

SECOND NATURE LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2002

9 Creditors: amounts falling due after more than one year	2002 £	2001 £
Bank loans	473,942	-
Net obligations under hire purchase contracts	34,816	60,218
	<u>508,758</u>	<u>60,218</u>
Analysis of loans		
Wholly repayable within five years	573,942	-
	<u>573,942</u>	<u>-</u>
Included in current liabilities	(100,000)	-
	<u>473,942</u>	<u>-</u>
Loan maturity analysis		
In more than one year but not more than two years	114,788	-
In more than two years but not more than five years	359,154	-
	<u>114,788</u>	<u>-</u>
The bank loan is secured by a mortgage debenture incorporating a legal mortgage over the company's leasehold property and a fixed and floating charge on the company's assets.		
Net obligations under hire purchase contracts		
Repayable within one year	27,949	37,944
Repayable between one and five years	50,350	78,299
	<u>78,299</u>	<u>116,243</u>
Finance charges and interest allocated to future accounting periods	(23,546)	(31,280)
	<u>54,753</u>	<u>84,963</u>
Included in liabilities falling due within one year	(19,937)	(24,745)
	<u>34,816</u>	<u>60,218</u>

SECOND NATURE LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2002

10 Share capital	2002 £	2001 £
Authorised		
300,000 Ordinary shares of £ 1 each	300,000	20,300
1,200,000 Cumulative convertible preference shares of £ 1 each	1,200,000	-
	<u>1,500,000</u>	<u>20,300</u>
Allotted, called up and fully paid		
150,036 Ordinary shares of £ 1 each	150,036	16,702
1,200,000 Cumulative convertible preference shares of £ 1 each	1,200,000	-
	<u>1,350,036</u>	<u>16,702</u>

During the year the ordinary 'A' shares and ordinary 'B' shares were redesignated as ordinary shares in a single class. The company's bankers converted £1,200,000 of the bank overdraft into the cumulative convertible preference shares shown above.

The cumulative convertible non-voting preference shares ("Preference Shares") confer the holders the right to receive a fixed cumulative preference dividend, in priority to the holders of any other shares, based on the issue price at 6% above the bank's base rate. This fixed preferential dividend accrues from 1 January 2006.

In the event of the sale of the company's trade, the preference shareholders are entitled to a distribution. In the event of the sale of the company's shares, the preference shareholders have rights of conversion immediately prior to that sale. The amount of the distribution, or the shares so converted, are based on formulae set out in the company's articles of association.

11 Statement of movements on reserves

	Share premium account £	Profit and loss account £
Balance at 1 January 2002	452,098	(1,367,890)
Retained loss for the year	-	(441,768)
Premium on shares issued during the year	66,666	-
Balance at 31 December 2002	<u>518,764</u>	<u>(1,809,658)</u>

SECOND NATURE LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2002

12 Reconciliation of movements in shareholders' funds	2002	2001
	£	£
Loss for the financial year	(441,768)	(897,758)
Proceeds from issue of shares	1,400,000	-
Net addition to/(depletion in) shareholders' funds	958,232	(897,758)
Opening shareholders' funds	(899,090)	(1,332)
Closing shareholders' funds	59,142	(899,090)

13 Financial commitments

At 31 December 2002 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2002	2001
	£	£
Expiry date:		
Within one year	-	42,725
In over five years	22,725	-
	22,725	42,725

14 Directors' emoluments	2002	2001
	£	£
Emoluments for qualifying services	189,927	249,295

SECOND NATURE LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2002

15 Employees

Number of employees

The average monthly number of employees (including directors) during the year was:

	2002 Number	2001 Number
Sales and administration	54	58

Employment costs

	£	£
Wages and salaries	1,029,831	1,163,796
Social security costs	103,401	121,690
Wages and salaries	1,133,232	1,285,466

16 Control

Mr T. and Mr R. Schragger, who are connected, are considered to be the ultimate controlling party as a result of their combined majority holding in the shares of the company.

17 Related party transactions

T. Schragger, a director of the company, received consultancy fees amounting to £nil (2001: £45,045).

During the year the company purchased goods and services from Default Limited amounting to £77,103 (2001: £86,230). T. Schragger is connected to G. Schragger who is a director and controlling party in Default Limited.

As at 31 December 2002, 3rd Dimension (Paper Engineering) Limited owed £nil (2001: £5,751).

R Schragger was owed £nil (2001:100,000) by the company at the year end and T Schragger was owed £nil (2001: £54,954).

The bank loan disclosed in note 9 is partly secured by a joint and several guarantees of £100,000 by T. Schragger and R. Schragger.