

SAMUEL HEATH & SONS PLC

Report and Accounts
for the year ended 31st March 2004

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SAMUEL HEATH & SONS
PLC
LEOPOLD STREET
BIRMINGHAM, B12 0UJ

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**SAMUEL HEATH & SONS
PLC
LEOPOLD STREET
BIRMINGHAM, B12 0UJ**

DIRECTORS AND OFFICERS

Directors: Samuel B. Heath*
(Chairman)
David J. Pick
(Managing Director)
David J. Richardson FCMA
(Financial Director)
Martin J. Legge*†
(Senior Non-executive)
David F. Coplestone*†
(Non-executive)
Charles J.B. Flint, LLB*†
(Non-executive)
William J. Lancashire
(Director)
Neil Bosworth
(Director)

* Member of remuneration committee
† Member of audit committee

Secretary: John Park

Registered Office: Leopold Street
Birmingham B12 0UJ
Registered No. 31942

Registrar: Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield, HD8 0LA

Auditors: Bentley Jennison
Charterhouse
Legge Street
Birmingham, B4 7EU

Solicitors: Shakespeares
Somerset House
Temple Street
Birmingham, B2 5DJ

Nominated adviser and nominated broker: Williams de Broë Plc
121 Edmund Street
Birmingham, B3 2HJ

CHAIRMAN'S STATEMENT

The results for the year ended 31st March 2004 in the end proved to be much more satisfactory than had sometimes seemed possible during a time when competition in the marketplace was fierce. A profit of £852,000 was achieved on a lower sales figure of £12,131,000.

Our heavy investment programme continued, with modern machinery being purchased, both to cut costs and make new products. During this trading period, the sales of our Xenon taps continued to gain market share, after their launch at the end of the previous year.

As will be apparent from the accounts, the Group continues to have a strong balance sheet, and your Directors believe that a purchase of the Company's shares at the right price level could benefit the Company, and thereby its shareholders. Accordingly, your Directors are seeking your approval for the purchase of up to 15% of the issued share capital, 382,023 shares, between Annual General Meetings.

During the last year the Company bought back 4,250 shares.

Our prospects for the current year are far from clear, except that it is certain that the pace of world competition has quickened over the last months. We are therefore budgeting for a profit in 2004/05 considerably lower than last year's.

There is, however, one bright star. Over a number of years, we have been working on a much more

powerful invisible door closer which would meet current standards, to go alongside the Perko and Perkomatic. This development has been carried out at considerable expense, all written off, it must be said, in the year of the expense. We have worked with academics, universities, and many other companies, but I am proud to say that most of the innovation — because of course we have been working in new territory — has been created "in-house" within our factory. The new closer is to be called the Perko Powermatic®, and it is due to be launched in October. The effect on the Profit and Loss Account in the current year is likely to be at best neutral, because of the initial promotion costs, but we see this product as an important part of our future strategy.

Your Board is recommending a final dividend of 8.5 pence per share, making a total of a same again 13.5 pence for the full year.

Sam Heath
Chairman

22nd July 2004

DIRECTORS' REPORT

Activities

The Group engages in the manufacture and marketing of a wide range of products in the builders' hardware and bathroom field. The Chairman's Statement on page 3 contains a review of the development of the business during the year and an indication of future prospects.

Results

The detailed results for the year and the recommended appropriations are shown on page 8.

Purchase of own shares

Between April 2003 and March 2004 the Company purchased 4,250 of its own ordinary 10 pence shares, representing 0.2 % of the called up share capital for a total consideration of £12,623. The purchases were for the longer-term enhancement of shareholder value.

Directors

The directors, whose names are shown below, held office at the end of the year.

The numbers of ordinary shares in which the directors had an interest were as follows:

<i>Beneficial interests:</i>	31st March 2004	31st March 2003
S.B. Heath	487,081	487,081
D.F. Coplestone	104,500	104,500
C.J.B. Flint	6,000	6,000
W.J. Lancashire	3,750	3,750
M.J. Legge	30,000	30,000
D.J. Pick	4,500	4,500
D.J. Richardson	2,000	2,000
N. Bosworth (appointed 1.4.03)	1,000	1,000*
 <i>Non-beneficial interests:</i>		
M.J. Legge	17,500	17,500
* on appointment		

The directors retiring by rotation are Mr C.J.B. Flint and Mr D.J. Richardson who offer themselves for re-election. Mr D.F. Coplestone retires having attained age 70. A resolution will be proposed that he be re-elected. None of them has a service contract with the Company.

Non-executives

Mr M.J. Legge has held a number of directorships in both public and private companies during his working life. He is the Senior Independent Director.

Mr D.F. Coplestone initially began working in the advertising agency field both in London and Birmingham. After a spell as a very successful independent selling agent, he worked for Samuel Heath & Sons PLC for 27 years.

Mr C.J.B. Flint is a solicitor. He holds directorships of a number of private companies. He is also on the Board of Governors of the University of Central England.

None of the directors has a material interest in any contract of significance.

DIRECTORS' REPORT

(continued)

Other major shareholdings

The Company has been notified of the following other major shareholdings at 31st March 2004.

	Number of Shares
C.A. Heath	383,710
G.S. Heath	383,710
S.A. Perkins (née Heath)	282,810
Solid Brass AB	94,000

Employees

Full and fair consideration is given to applications for employment from disabled persons and to continuing the employment of those who become disabled while employed. The policy is to give equal opportunity for training, career development and promotion.

The awareness and involvement of employees in the Group's performance is achieved by consultation and negotiation in meetings involving employees at all levels. An active Works Committee has been in operation for many years.

Policy on payment of creditors

The Company's policy for the payment of creditors is to make payment in accordance with agreed terms and conditions of trade.

At 31st March 2004 the Company's creditor days compared to the value of supplier invoices received in the year was 31 (2003: 47).

Derivatives and other financial instruments

Financial Reporting Standard 13 requires us to explain the role that derivatives and other financial instruments play in the Group's activities.

The Group is financed by operational cash flow and any surplus cash is placed short term on the money market.

Some trading takes place in foreign currencies but exposure at any one time is at a sufficiently low level for the Board to consider the currency risk acceptable.

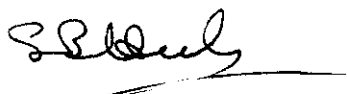
Auditors

On 30th June 2004, Moore Stephens merged their practice with Bentley Jennison and now practise in the name of Bentley Jennison. Accordingly, they have signed their audit report in their new name.

A resolution to reappoint the auditors Bentley Jennison will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

S.B. Heath
Chairman



22nd July 2004

SAMUEL HEATH & SONS
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BIRMINGHAM, B12 0UJ

— STATEMENT OF DIRECTORS' RESPONSIBILITIES —

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 Group and the Company and of the profit or loss of the Group and 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;

state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;

prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group and 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 Group and 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 Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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INDEPENDENT AUDITORS' REPORT

To the shareholders of Samuel Heath & Sons PLC

We have audited the financial statements of Samuel Heath & Sons PLC for the year ended 31st March 2004 set out on pages 8 to 23. These financial statements have been prepared under the historical cost convention and the accounting policies set out on page 11.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom 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 and of the Group at 31st March 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Charterhouse
Legge Street
Birmingham, B4 7EU


Bentley Jennison
Chartered Accountants
and Registered Auditors

22nd July 2004

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 31st March 2004

		2004		2003	
	Notes	£000	£000	£000	£000
Turnover	(2)		12,131		12,738
Cost of sales			5,517		6,014
Gross profit			6,614		6,724
Distribution costs		427		382	
Administrative expenses		5,395	5,822	5,342	5,724
Operating profit	(3)		792		1,000
Interest receivable			60		62
Profit on ordinary activities before taxation			852		1,062
Taxation	(4)		139		235
Profit on ordinary activities after taxation			713		827
<i>Deduct: Dividends</i>					
Interim of 5.0 pence per share (2003: 5.0 pence)		128		128	
Proposed final of 8.5 pence per share (2003: 8.5 pence)		216	344	216	344
Added to reserves	(12)		369		483
Earnings per share					
The profit after taxation, £713,000 related to 2,546,888 ordinary shares, being the average number in issue during the year (2003: £827,000 related to 2,624,904 ordinary shares)					
			28.0 pence		31.5 pence

TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31st March 2004

The Group has no recognised gains or losses other than the profit for the current year.

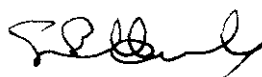
BALANCE SHEETS

31st March 2004

	Notes	Group		Parent company	
		2004 £000	2003 £000	2004 £000	2003 £000
Fixed assets					
Tangible assets	(5)	2,954	3,069	2,954	3,069
Investments	(6)	—	—	399	399
		2,954	3,069	3,353	3,468
Current assets					
Stocks	(7)	1,967	2,091	1,967	2,091
Debtors	(8)	2,325	2,206	2,325	2,206
Cash at bank		2,091	2,053	2,091	2,053
		6,383	6,350	6,383	6,350
Creditors: amounts falling due within one year					
Corporation tax		200	260	200	260
Amounts owed to Group undertakings		—	—	1,052	1,052
Other creditors	(9)	1,430	1,792	1,430	1,792
		1,630	2,052	2,682	3,104
Net current assets		4,753	4,298	3,701	3,246
Total assets less current liabilities		7,707	7,367	7,054	6,714
Creditors: amounts falling due after more than one year					
	(9)	—	11	—	11
Provision for liabilities and charges	(10)	390	395	390	395
Net assets		7,317	6,961	6,664	6,308
<i>Financed by</i>					
Capital and reserves					
Called up share capital	(11)	255	255	255	255
Capital redemption reserve	(12)	108	108	108	108
Profit and loss account	(12)	6,954	6,598	6,301	5,945
Equity shareholders' funds		7,317	6,961	6,664	6,308

Signed on behalf of the Board on 22nd July 2004

S.B. Heath
Chairman



GROUP CASH FLOW STATEMENT

for the year ended 31st March 2004

	<i>Notes</i>	2004		2003	
		£000	£000	£000	£000
Net cash inflow from operating activities	(17)		871		1,261
Returns on investments and servicing of finance					
Interest received		60		62	
Net cash inflow from returns on investments and servicing of finance			60		62
Taxation					
UK corporation tax paid			(204)		(275)
Capital expenditure					
Purchase of tangible fixed assets		(407)		(619)	
Sale of tangible fixed assets		75		60	
Net cash outflow for capital expenditure			(332)		(559)
Management of liquid resources					
Increase in short-term deposits			(297)		(41)
Financing					
Purchase of own shares		(13)		(311)	
Net cash outflow for financing			(13)		(311)
Equity dividends paid			(344)		(340)
Decrease in cash	(18)		(259)		(203)

-RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS-

for the year ended 31st March 2004

	2004	2003
	£000	£000
Profit for the financial year	713	827
Dividends	(344)	(344)
	369	483
Purchase of own shares	(13)	(311)
Opening shareholders' funds	6,961	6,789
Closing shareholders' funds	7,317	6,961

NOTES FORMING PART OF THE ACCOUNTS

31st March 2004

1. Accounting policies

Basis of the accounts

These accounts have been prepared in accordance with applicable accounting standards and on the historical cost basis of accounting. They do not include the parent company's own profit and loss account in accordance with the exemption available under section 230 Companies Act 1985.

Accounting policies have been consistently applied.

Basis of consolidation

The consolidated accounts incorporate the state of affairs at 31st March 2004 of all the subsidiaries in the Group. On the acquisition of a subsidiary, the fair value of the underlying net assets is brought into the consolidation.

Turnover

Turnover is the invoiced value of sales excluding VAT and excluding transactions within the Group.

Stocks

Stocks are valued at the lower of historical cost (which includes overheads where appropriate) and net realisable value.

Research and development

Expenditure on research, patents and trademarks is written off in the year in which it is incurred.

Deferred taxation

Deferred tax has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in the future, or a right to pay less taxation in the future. An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain. Deferred assets and liabilities have not been discounted.

Foreign currencies

Assets and liabilities expressed in foreign currencies are translated into sterling at year end exchange rates. Any differences arising are written off to the profit and loss account.

Depreciation and amortisation

Depreciation is provided on all tangible fixed assets, except freehold land, at such rates as will write off the costs of those assets over their estimated useful lives. With minor exceptions the rates used are as follows:

Freehold buildings	2% p.a. on cost
Long leasehold land and buildings	2% p.a. on cost
Plant and equipment	10% p.a. on cost
Computer equipment	25% p.a. on cost
Vehicles	25% p.a. on cost

Goodwill arising on acquisitions made after 23rd December 1998 is amortised over 20 years. Goodwill on earlier acquisitions was written off against reserves but will be taken into account if and when the respective businesses are disposed of.

Pensions

The costs of providing pensions for employees are charged in the profit and loss account over the average working life of employees in accordance with recommendations of qualified actuaries. Funding surpluses or deficits that may arise from time to time are amortised over the average working life of employees.

Note 15 also contains additional disclosures as required by FRS17 'Retirement Benefits'.

Leased assets

Assets held under finance leases are capitalised and included in tangible fixed assets at fair value. Each asset is depreciated over the shorter of the lease term or its useful life. Obligations related to finance leases, net of finance charges in respect of future periods, are included as appropriate under creditors amounts falling due within or after more than one year. The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period. Rentals under operating leases are charged to the profit and loss account on a straight-line basis.

NOTES FORMING PART OF THE ACCOUNTS

(continued)

2. Turnover

All sales originated in the United Kingdom.

An analysis of turnover between destinations is:

	2004	2003
	£000	£000
Overseas	4,077	4,457
Home	8,054	8,281
	12,131	12,738

No detailed analysis of overseas turnover is given as, in the opinion of the directors, the disclosure of such information would be seriously prejudicial to the interests of the Group.

3. Operating profit

Operating profit is stated after charging the following:

	2004		2003	
	£000	£000	£000	£000
Directors' emoluments for the year:				
Fees	25		29	
Management remuneration (salaries and benefits)	437		365	
Performance related payments	67	529	53	447
		447		443
Depreciation (less surplus on disposals £15,000)		8		14
Hire and leasing of vehicles				
Auditors' remuneration:				
Audit		34		33
Other services		8		14
		139		235

4. Taxation

	2004		2003	
	£000	£000	£000	£000
Corporation tax		200		260
Transfer to/(from) deferred taxation to equalise capital allowances	—		21	
Future tax relief on provision for contributions to pension scheme	(5)	(5)	(6)	15
		(56)		(40)
Overprovision for prior years		139		235

NOTES FORMING PART OF THE ACCOUNTS

(continued)

4. Taxation (continued)

Factors affecting the tax charge

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below:

	2004	2003
	£000	£000
Profit on ordinary activities before tax	852	1,062
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2003: 30%)	256	319
Effects of:		
Depreciation less profit on disposals of fixed assets in excess of capital allowances	4	(15)
Research and development claim	(58)	(41)
Marginal relief	(22)	(15)
Sundry adjustments and roundings	20	12
Current tax charge	200	260

5. Tangible fixed assets of the Group and of the Company

	Total £000	Land and buildings £000	Plant and equipment £000	Vehicles £000
Cost				
At 31st March 2003	6,331	1,464	4,437	430
Additions	407	—	278	129
Disposals	(182)	—	(42)	(140)
At 31st March 2004	6,556	1,464	4,673	419
Aggregate depreciation				
At 31st March 2003	3,262	425	2,680	157
Charge for the year	462	28	337	97
Disposals	(122)	—	(35)	(87)
At 31st March 2004	3,602	453	2,982	167
Book value				
At 31st March 2004	2,954	1,011	1,691	252
At 31st March 2003	3,069	1,039	1,757	273

NOTES FORMING PART OF THE ACCOUNTS

(continued)

5. Tangible fixed assets of the Group and of the Company (continued)

The book value at 31st March 2004 of land and buildings is made up as follows:

	2004	2003
	£000	£000
Freehold land and buildings	879	903
Long leasehold land and buildings	132	136
	1,011	1,039

The net book value of freehold land and buildings includes £46,000 (2003: £46,000) in respect of land which is not depreciated.

The net book value of motor vehicles includes an amount of £15,000 (2003: £35,000) in respect of assets held under finance leases. The depreciation charge for the year was £15,000 (2003: £25,000).

6. (a) Investments

	2004	2003
	Company	Company
	£000	£000
Shares in subsidiaries		
Cost at 31st March 2004	852	852
Amount written off to date	453	453
	399	399

6. (b) Details of subsidiary companies

All subsidiaries are wholly owned and are dormant.

The cumulative amount of goodwill purchased up to 23rd December 1998 and written off against reserves in respect of subsidiaries which remained in the Group at 31st March 2004 was £518,000.

7. Stocks

	2004	2003
	Group and	Group and
	Company	Company
	£000	£000
Raw material	414	437
Work in progress	710	829
Goods for resale	843	825
	1,967	2,091

NOTES FORMING PART OF THE ACCOUNTS

(continued)

8. Debtors

	2004 Group and Company £000	2003 Group and Company £000
Trade debtors	2,128	1,968
Prepayments	197	238
	2,325	2,206

Included within prepayments is a pension cost prepayment of £132,000 (2003: £144,000), £120,000 of which is recoverable after more than one year (2003: £132,000).

9. Creditors

	Amounts falling due within one year	
	2004 Group and Company £000	2003 Group and Company £000
Trade creditors	645	1,032
Accruals	209	178
Social security, income tax and VAT	349	353
Proposed dividend	216	216
Obligations under finance leases	11	13
	1,430	1,792

	Amounts falling due after more than one year	
	2004 Group and Company £000	2003 Group and Company £000
Obligations under finance leases Between 1 and 2 years	—	11

NOTES FORMING PART OF THE ACCOUNTS

(continued)

10. Deferred taxation

	2004 Group and Company £000	2003 Group and Company £000
Deferred tax liability at 31st March 2003	395	380
Charge in respect of accelerated capital allowances	—	21
Credit in respect of tax relief on contributions prepaid to pension scheme	(5)	(6)
Deferred tax liability at 31st March 2004	<u>390</u>	<u>395</u>

11. Share capital

	2004 Group and Company £000	2003 Group and Company £000
<i>Authorised</i> 5,000,000 Ordinary shares of 10 pence each	<u>500</u>	<u>500</u>
<i>Allotted, called up and fully paid</i> 2,546,818 (2003: 2,551,068) Ordinary shares of 10 pence each	<u>255</u>	<u>255</u>

Between April 2003 and March 2004 the company purchased 4,250 of its own shares for a total consideration of £12,623.

12. Reserves

	Profit and loss account		Capital redemption reserve	
	Group £000	Company £000	Group £000	Company £000
At 31st March 2003	6,598	5,945	108	108
Premium on redemption of shares	(13)	(13)	—	—
Retained profit	369	369	—	—
At 31st March 2004	<u>6,954</u>	<u>6,301</u>	<u>108</u>	<u>108</u>

NOTES FORMING PART OF THE ACCOUNTS

(continued)

13. Particulars of staff

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

	2004	2003
Monthly paid	77	80
Weekly paid	132	149
	209	229

The total staff costs were as follows:

	£000	£000
Wages and salaries	4,286	4,506
Social security costs	342	310
Pension scheme costs	632	703
	5,260	5,519

	2004	2003
	Group and Company	Group and Company
	£000	£000
Directors' emoluments	529	447

Retirement benefits accruing to the following number of directors under:

	Number	Number
Defined benefit schemes	4	3

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

	£000	£000
Emoluments	131	135
Accumulated total accrued pension at the year end	38	33
Total accrued lump sum at the year end	86	75

14. Future capital expenditure

The approximate amount of capital expenditure not provided for in these accounts was as follows:

	2004	2003
	Group and Company	Group and Company
	£000	£000
Contracted for	—	32

NOTES FORMING PART OF THE ACCOUNTS

(continued)

15. Pension commitments

(a) Disclosures in accordance with Statement of Standard Accounting Practice 24

The Company operates two pension schemes to provide benefits based on final pensionable pay for the majority of its employees. The assets of these schemes are held separately from those of the Company, being invested with insurance companies. Contributions to the schemes are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Company. The contributions are determined by qualified actuaries on the basis of triennial valuations.

The most recent valuation of the staff pension scheme was at 1st July 2003 and was made on the projected accrued benefit method. The main long-term actuarial assumptions were that the rate of investment return would exceed increases in earnings by 3% per annum compound. Employer's contributions are made at the rate of 20% per annum from 1st July 2002 to include an addition for solvency.

This actuarial valuation showed that the market value of the scheme's assets was £3,767,000 and that the actuarial value of those assets represented 78% of the benefits that had accrued to members after allowing for expected future increases in earnings.

The most recent valuation of the works pension scheme was at 6th April 2001 and was made on the projected unit method. The main long-term actuarial assumptions were that the average rate of investment returns would be 8.5% per annum compound and that increases in earnings would average 4.0% per annum compound. Employer's contributions are made at the rate of 12.6% per annum from 1st April 2002.

This actuarial valuation showed that the market value of the scheme's assets was £1,680,000 and that the actuarial value of those assets represented 72% of the benefits that had accrued to members after allowing for expected future increases in earnings.

In accordance with SSAP 24 any consequent additions to or savings in the Company's contributions are taken to the profit and loss account over the average expected future service life of the current employees.

Present arrangements

The directors decided to close the above schemes to new members, and new employees joining the Company from 1st November 2000 are, following a period of qualification, invited to join a new defined contribution scheme. The employer's contribution rate for this scheme is 7% per annum.

(b) Transitional disclosures in accordance with Financial Reporting Standard 17

The valuations used for FRS17 disclosures have been based on the full actuarial valuations referred to above and updated to 31st March 2004 by the actuaries.

The major assumptions used by the actuaries were:

	Staff Scheme	Works Scheme
Inflation assumption	2.9%	2.5%
Rate of increase in salaries	4.0%	4.0%
Rate of increase for pensions in payment	2.6%	2.5%
Discount rate	5.5%	5.5%

NOTES FORMING PART OF THE ACCOUNTS

(continued)

15. Pension commitments (continued)

	2004 £000	2003 £000
Amounts that will be included within operating profit on adoption of FRS17		
Current service cost	<u>384</u>	<u>383</u>
Amounts that will be included within other finance income on adoption of FRS17		
Expected return on pension scheme assets	470	471
Interest on pension scheme liabilities	<u>(578)</u>	<u>(476)</u>
	<u>(108)</u>	<u>(5)</u>
Analysis of amounts that will be included within the statement of recognised gains and losses (STRGL) on adoption of FRS17		
Difference between actual and expected return on pension scheme assets	(335)	(1,016)
Experience gains and losses arising on scheme liabilities	65	18
Effects of changes in assumptions underlying the present value of scheme liabilities	109	(1,837)
Effect of change in the basis of valuation of scheme assets	<u>397</u>	<u>605</u>
Actuarial loss recognised in the STRGL	<u>236</u>	<u>(2,230)</u>

The fair value of the assets in the schemes and the expected rates of return were:

31st March 2004	Staff scheme		Works scheme	
	Long-term rate of return expected per annum	Proportion of fund	Long-term rate of return expected per annum	Value £000
Insurance policy investment profile:				
Equities		48.0 %	5.9%	1,380
Property		17.0 %		
Bonds		31.0 %	3.9%	190
Other		4.0 %	3.9%	<u>80</u>
		£000		
Total value of policy	7.0 %	4,269	5.6%	1,650
Secured pensions in payment	5.5 %	<u>1,680</u>		
Total market value of assets		5,949		
Present value of scheme liabilities		<u>8,545</u>		2,400
Deficit in the scheme		<u>2,596</u>		<u>750</u>
Total deficit				3,346
Related deferred tax asset				<u>1,004</u>
Net pension liability				<u>2,342</u>

NOTES FORMING PART OF THE ACCOUNTS
(continued)

15. Pension commitments *(continued)*

31st March 2003	Staff scheme		Works scheme	
	Long-term rate of return expected per annum	Proportion of fund	Long-term rate of return expected per annum	Value £000
Insurance policy investment profile:				
Equities		45.0%	5.6%	870
Property		17.0%		
Bonds		34.0%	3.6%	170
Other		4.0%	3.6%	100
		£000		
Total value of policy	7.5%	3,948	5.1%	1,140
Secured pensions in payment	5.4%	1,776		
		<u>5,724</u>		
Total market value of assets		5,724		
Present value of scheme liabilities		8,171		2,310
		<u>2,447</u>		<u>1,170</u>
Deficit in the scheme				3,617
Total deficit				1,085
Related deferred tax asset				<u>2,532</u>
Net pension liability				<u>2,532</u>
Movement in deficit during the year				
Deficit at 31st March 2003				(3,617)
Current service cost				(384)
Contributions				527
Other finance income				(108)
Actuarial gain				236
Deficit at 31st March 2004				<u>(3,346)</u>

NOTES FORMING PART OF THE ACCOUNTS
(continued)

15. Pension commitments *(continued)*

	2004		2003	
	£000	£000	£000	£000
Net assets				
Net assets before pension liability		7,317		6,961
Pension liability	2,342		2,532	
SSAP 24 assets to be reversed upon implementation of FRS17 (net of deferred tax)	92		101	
		<u>2,434</u>		<u>2,633</u>
Net assets after pension liability		<u>4,883</u>		<u>4,328</u>
Reserves				
Profit and loss reserve before pension liability		6,954		6,598
Pension liability	2,342		2,532	
SSAP 24 asset to be reversed upon implementation of FRS17 (net of deferred tax)	92		101	
		<u>2,434</u>		<u>2,633</u>
Profit and loss reserve after pension liability		<u>4,520</u>		<u>3,965</u>
History of experience gains and losses				
	£000		£000	
Difference between the expected and actual return on scheme assets	(335)		(1,016)	
(% of scheme assets)		4.4%		14.8%
Experience gains and losses on scheme liabilities	65		18	
(% of scheme liabilities)		0.6%		0.2%
Total actuarial gains and losses recognized in the STRGL	236		(2,230)	
(% of scheme liabilities)		2.2%		21.3%

NOTES FORMING PART OF THE ACCOUNTS
(continued)

16. Financial instruments

Details of the Group's policy on financial instruments are given in the directors' report on page 5.

(a) The currency and interest rate profile of the Group's financial assets at 31st March 2004, excluding short-term debtors and creditors:

	2004 Total £000	Short-term floating rate deposits £000	Deposits on which no interest applies/ (overdrafts) £000	2003 Total £000
Currency				
Sterling	2,018	2,298	(280)	2,012
Other	73	6	67	41
	<u>2,091</u>	<u>2,304</u>	<u>(213)</u>	<u>2,053</u>

Floating rate deposits are held on deposit for variable periods at prevailing money market rates.

(b) Currency exposure at 31st March 2004:

Non-sterling net foreign currency monetary assets at 31st March 2004 totalled £551,000 (2003: £580,000).

17. Reconciliation of operating profit to net cash inflow from operating activities

	2004 Group and Company £000	2003 Group and Company £000
Operating profit	792	1,000
Depreciation charges and loss/surplus on disposals	447	443
Pension scheme charge	12	21
Decrease/(Increase) in stocks	124	(58)
Increase in debtors	(131)	(74)
Decrease in creditors	(373)	(71)
Net cash inflow from operating activities	<u>871</u>	<u>1,261</u>

NOTES FORMING PART OF THE ACCOUNTS

(continued)

18. Reconciliation of net cash flow to movement in net funds

	2004	2003
	£000	£000
Decrease in cash in the period	(259)	(203)
Cash outflow for management of liquid resources	297	41
	<hr/>	<hr/>
Net funds at 31st March 2003	38	(162)
	2,053	2,215
	<hr/>	<hr/>
Net funds at 31st March 2004	2,091	2,053
	<hr/> <hr/>	<hr/> <hr/>

19. Analysis of net funds

	At 31st March 2003 £000	Cash flow £000	At 31st March 2004 £000
Bank balances	52	(259)	(207)
Short-term deposits	2,001	297	2,298
	<hr/>	<hr/>	<hr/>
Cash at bank per balance sheet	2,053	38	2,091
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

20. Controlling party

For the purposes of FRS8, the Company is controlled by its Chairman Mr S.B. Heath and his close family.

SAMUEL HEATH & SONS
PLC
LEOPOLD STREET
BIRMINGHAM, B12 0UJ

NOTICE OF MEETING

Notice is hereby given that the one hundred and fourteenth Annual General Meeting of the Company will be held at the registered office of the Company, Leopold Street, Birmingham, on 20th August 2004 at 12.00 noon.

The general business of the meeting will be to consider and, if thought fit, pass the following resolutions:

1. That the Directors' report and audited accounts for the year ended 31st March 2004 be approved and adopted.
2. That a final dividend for the year ended 31st March 2004 of 8.5 pence per share be declared payable on 20th August 2004 to ordinary shareholders registered at the close of business on 30th July 2004.
3. That Mr C.J.B. Flint, who retires by rotation, be re-elected a director.
4. That Mr D.J. Richardson, who retires by rotation, be re-elected a director.
5. That Mr D.F. Coplestone, who retires having attained the age of 70, be re-elected a director.
6. That Bentley Jennison be reappointed as auditors and that the directors be authorised to fix their remuneration.

As special business to consider and, if thought fit, to pass the resolutions, of which Resolutions 7 and 8 will be proposed as Ordinary Resolutions and Resolution 9 as a Special Resolution.

7. That the Company be authorised, pursuant to Article 10 of the Articles of Association of the Company, to make market purchases (within the meaning of Section 163 of the Companies Act 1985) on the London Stock Exchange up to a cumulative maximum of 382,023 ordinary shares of 10 pence each in the capital of the Company at a price of not less than 10 pence per ordinary share and not more than 5% above the average of the middle market quotations of the ordinary shares as derived from the Stock Exchange Daily Official List on the 5 dealing days before the purchase.

The prices specified above are exclusive of expenses.

The authority hereby conferred shall expire at the next Annual General Meeting unless previously varied, revoked or renewed by the Company in General Meeting, provided that the Company shall be permitted to make any contract of purchase of any such shares which will or may be executed wholly or partly after the authority hereby conferred shall have expired.

8. That the directors of the Company be and they are hereby generally and unconditionally authorised (in substitution for any authorities previously granted to the directors), pursuant to Section 80 of the Companies Act 1985 ("the Act"), to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80(2) of the Act) up to an aggregate nominal amount of £25,468 provided that this authority shall expire on 20th August 2009 save that the Company may before such expiry make offers, agreements or arrangements which would or might require relevant securities to be allotted after such expiry and so that the directors of the Company may allot relevant securities in pursuance of such offers, agreements or arrangements as if the authority conferred hereby had not expired.

NOTICE OF MEETING

(continued)

9. That the directors of the Company be and they are hereby empowered pursuant to Section 95(1) of the Act to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the authority conferred by Resolution 8 as if Section 89(1) of the Act did not apply to any such allotment, PROVIDED THAT this power shall be limited to (a) the allotment of equity securities in connection with or pursuant to an offer by way of rights issue or open offer to the holders of equity shares in the Company in proportion (as nearly as may be) to such holders' holdings of such shares but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with legal or practical problems in respect of overseas shareholders, fractional entitlements or otherwise and (b) the allotment (otherwise than pursuant to (a) above) of equity securities for cash up to an aggregate nominal amount of £25,468 provided that this power shall expire at the conclusion of the next Annual General Meeting of the Company or, if later, 15 months from the passing of this resolution, save that the Company may before such expiry make offers, agreements or arrangements which would or might require equity securities to be allotted after such expiry and so that the directors of the Company may allot equity securities in pursuance of such offers, agreements or arrangements as if the power conferred hereby had not expired.

By order of the Board

J. Park
Secretary

22nd July 2004

Notes:

1. Any member entitled to attend and vote at the above Meeting may appoint one or more persons as proxies, who need not also be members, to attend and vote on his behalf. Proxy forms must be lodged with the Registrar not later than 48 hours before the time fixed for the meeting.
2. A statement of the share transactions of each director for the twelve months to 30th June 2004 is available for inspection at the registered office during usual business hours on any weekday (excluding Saturdays and public holidays) until 19th August 2004 and will also be available at the Annual General Meeting from 11.45 a.m. until 15 minutes after the meeting is closed.