

LUKE HUGHES & CO. LIMITED

**DIRECTORS' REPORT
AND FINANCIAL STATEMENTS**

For the year ended

31 MARCH 2002

Registered Number 1952292

LUKE HUGHES & CO. LIMITED

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LUKE HUGHES & CO. LIMITED

STATEMENT ON BEHALF OF THE BOARD

The year ending 31 March 2002 was in many respects an extraordinary year. Sales during April, May and June were twice the level of any previous first quarter; this indicated a potentially strong period of sales growth, but the potential was not realised and the signs of a general slow down in the market became evident. From September onwards world events compounded matters and it became clear that market conditions were becoming more serious than anyone had anticipated; buyers and specifiers, particularly in the corporate sector, delayed decisions and postponed projects. Industry figures show that compared to the previous year, sales in January, February and March 2002 in the UK were down by 29.2%. The downturn provided a stringent test of your Company's ability to manage a complex set of problems and yet still achieve a positive financial result. Sales at £2,134,587 (2001 - £2,217,030), although disappointing, did still allow the Company to achieve a net profit before tax of £42,732 (2001 - £26,813) excluding the non-recurring cost of restructuring the balance sheet (and joining ShareMark©), which amounted to £38,180. The Loan Stock which matured in March 2002 has now been paid off.

Although conditions in the market were difficult, your Company continued to serve its clients with its usual brand of innovative design solutions. Our knowledge of integrating cable management within conference tables has made us market leaders in this sector. Demand for the Wales & Wales ranges of street furniture continues to be strong, and is now a prime source of recurring revenue. Institutional clients found our design empathy for their buildings as compelling as ever. Clients now include Buckingham Palace (The Queen's Gallery), The Eden Project, Bristol Cathedral, Lovells, Pearson plc, Centrica and the TGWU.

As mentioned and approved at the AGM in 2001, arrangements were completed to restructure the balance sheet and, via ShareMark©, to provide a facility for shareholders to buy and sell their shares. Although two auctions have been held no trades have as yet been made.

We continued to strengthen the business by improving our systems, updating technology to introduce 3D visualisation on client proposals and to invest in the members of the team.

In March 2002, having overseen the financial rejuvenation of the business, the means to buy and sell shares, and with a stable team in place, Terry Clements decided to step down as Chairman. We thank Terry for his steady hand over the years. The board is deliberately biding its time before appointing a replacement and in the meantime Charles Breese has been performing this role.

L A Hughes
Director

LUKE HUGHES & CO. LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited statements for the year ended 31 March 2002.

Principal activities

The principal activities of the Company are the design and supply of furniture for the institutional and corporate markets.

Business review

On 27 September 2001 the 'A' Ordinary Shares of 10p each were redesignated as Ordinary Shares of 10p each, and the rights of the Redeemable Convertible Preference Shares of 50p each were amended (see note 11).

On 7 November 2001, the cancellation of the share premium account was confirmed by Order of the Companies Court.

The profit and loss account for the year is set out on page 6. Further information regarding the review of affairs is set out in the Statement on behalf of the Board (see page 1).

Directors and directors' interests

The directors who held office during the year were as follows:

T A Clements (Resigned 31 March 2002)
L A Hughes
C J Breese
A P Phipps
C C Watson

The directors who held office at the end of the financial year had the following interests in the shares of the Company.

	Class Of share	Interest at end year	Interest at beginning of year
L A Hughes	Ordinary	64,000	64,000
C J Breese	Ordinary	8,245	-
C J Breese	'A' Ordinary	-	8,245
C J Breese	Redeemable Convertible Preference	7,000	7,000
C C Watson	Ordinary	8,566	-
C C Watson	'A' Ordinary	-	8,566

On 19 February 1996, the Company granted an option to A P Phipps to purchase 17,000 'A' Ordinary Shares of 10p each at a price of £2 per share. The option is now exercisable over a like number of Ordinary Shares of 10p each on the same terms and may be exercised in whole or in part at any time before 19 February 2003.

On 29 November 2000, the Company granted an option to C C Watson to purchase 22,210 'A' Ordinary Shares of 10p each at a price of £3.05 per share. The option is now exercisable over a like number of Ordinary Shares of 10p each on the same terms and may be exercised in whole or in part at any time before 29 November 2007.

LUKE HUGHES & CO. LIMITED

DIRECTORS' REPORT (continued)

Auditors

KPMG indicated their wish to stand down from being auditors of the Company and the Board appointed Smith & Williamson in their place. Smith & Williamson have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the board

K R Ford
Secretary

LUKE HUGHES & CO. LIMITED

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 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.

Smith & Williamson

Independent auditors' report to the shareholders of Luke Hughes & Co. Limited

We have audited the financial statements of Luke Hughes & Co. Limited for the year ended 31 March 2002 on pages 6 to 17. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the Company's directors are responsible for the preparation of the financial statements in accordance with applicable 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 Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

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

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 the Company's affairs as at 31 March 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

SMITH & WILLIAMSON
Chartered Accountants
Registered Auditors

No.1 Riding House Street
London W1A 3AS

16 August 2002

LUKE HUGHES & CO. LIMITED

PROFIT AND LOSS ACCOUNT for the year ended 31 MARCH 2002

	Notes	2002 £	2001 £
Turnover	1	2,134,587	2,217,030
Cost of sales		(1,133,406)	(1,224,189)
		<hr/>	<hr/>
Gross profit		1,001,181	992,841
Distribution costs		(29,651)	(32,830)
		<hr/>	<hr/>
Exceptional administrative expenses	2	38,180	-
Other administrative expenses		930,534	932,682
Total administrative expenses		(968,714)	(932,682)
		<hr/>	<hr/>
Operating profit	2	2,816	27,329
Interest receivable		2,262	2,141
Interest payable and similar charges	5	(526)	(2,657)
		<hr/>	<hr/>
Profit on ordinary activities before taxation		4,552	26,813
Taxation	6	-	-
		<hr/>	<hr/>
Profit for the financial year		4,552	26,813
Finance costs of non-equity shares	12	(11,947)	(6,379)
		<hr/>	<hr/>
Retained (loss)/profit attributable to equity shareholders	12	(7,395)	20,434
		<hr/>	<hr/>

All of the Company's operations are classed as continuing. There were no gains or losses in either year other than those included in the above profit and loss account.

LUKE HUGHES & CO. LIMITED

BALANCE SHEET as at 31 MARCH 2002

	Notes	2002 £	2001 £
Fixed assets			
Tangible assets	7	106,014	119,429
Current assets			
Stocks	8	4,765	18,274
Debtors	9	478,667	760,186
Cash at bank and in hand		53,331	27,863
		536,763	806,323
Creditors: amounts falling due within one year	10	(629,565)	(917,092)
Net current (liabilities)		(92,802)	(110,769)
Total assets less current liabilities		13,212	8,660
Capital and reserves			
Called up share capital	11	47,152	47,152
Share premium account	12	-	885,038
Profit and loss account	12	(33,940)	(923,530)
Shareholders' funds			
Equity		(159,805)	(152,410)
Non-equity	13	173,017	161,070
Shareholders' funds	13	13,212	8,660

The financial statements were approved by the board of directors on 15 August 2002 and were signed on its behalf by:

L A Hughes
Director

LUKE HUGHES & CO. LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2002

1. Accounting policies

A summary of the more important accounting policies adopted are described below.

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The accounts have been prepared under the historical cost convention and on the going concern basis.

Fixed assets and depreciation

Depreciation is provided by the Company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Leasehold improvements	-	10 years
Plant, tools and machinery	-	4 years
Fixtures, fittings and equipment	-	4 years

Deferred taxation

Deferred taxation is provided for on a full provision basis on all timing differences which have arisen but not reversed at the balance sheet date. A deferred tax asset is not recognised to the extent that the transfer of economic benefit in future is uncertain. Any assets and liabilities recognised have not been discounted.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Stocks

Stock is stated at the lower of cost and net realisable value, which is generally computed on the basis of buy-in cost.

Turnover

Turnover represents the sale of furniture made within the United Kingdom and is stated net of value added tax.

Pensions

The Company contributes to a money purchase pension plan for a director. The charge for the year represents the premiums payable to the scheme during the year.

LUKE HUGHES & CO. LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2002 (continued)

2. Operating profit	2002	2001
is stated after charging:	£	£
Auditors' remuneration	8,000	7,000
Depreciation	42,190	38,821
Rentals under operating leases:		
Plant and machinery	17,540	21,324
Other	57,000	45,760
	<hr/>	<hr/>

The exceptional administrative expenses during the year ended 31 March 2002 represented certain legal and professional fees arising from the share capital reconstruction, the share premium cancellation and joining ShareMark©.

3. Remuneration of directors	2002	2001
	£	£
Aggregate emoluments	197,000	186,951
Pensions	5,730	6,076
	<hr/>	<hr/>
	202,730	193,027
	<hr/>	<hr/>

The remuneration of the highest paid director was as follows:

	£	£
Aggregate emoluments	78,350	71,650
Company pension contributions to money purchase schemes	5,730	6,076
	<hr/>	<hr/>
	84,080	77,726
	<hr/>	<hr/>

One director had retirement benefits accruing under a money purchase scheme (2001: one director). Details of share option schemes can be found in the Directors' Report.

LUKE HUGHES & CO. LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2002 (continued)

4. Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2002	2001
Directors	5	6
Other employees:		
Administration	14	12
	<hr/>	<hr/>
	19	18
	<hr/> <hr/>	<hr/> <hr/>

The aggregate payroll costs of these persons were as follows:

	2002	2001
	£	£
Wages and salaries	556,500	529,529
Social security costs	56,258	55,882
Other pensions costs	5,730	6,076
	<hr/>	<hr/>
	618,488	591,487
	<hr/> <hr/>	<hr/> <hr/>

5. Interest payable and similar charges

	2002	2001
	£	£
On bank loans and overdrafts	104	1,649
Other loans	422	1,008
	<hr/>	<hr/>
	526	2,657
	<hr/> <hr/>	<hr/> <hr/>

LUKE HUGHES & CO. LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2002 (continued)

6 Taxation	2002 £	2001 £
United Kingdom Corporation tax for the year at 0 % (2001: 0%)	-	-
	<hr/> <hr/>	<hr/> <hr/>
Profit on ordinary activities per the accounts	4,552	26,813
	<hr/> <hr/>	<hr/> <hr/>
<i>Tax reconciliation</i>		
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2001: 20%)	910	5,363
Capital allowances for period (in excess of) depreciation	(211)	(1,849)
Expenses not deductible for tax purposes	9,106	1,709
Other timing differences – losses brought forward	(9,805)	(5,223)
	<hr/>	<hr/>
Total current tax charge	-	-
	<hr/> <hr/>	<hr/> <hr/>
The amount of unprovided deferred tax asset is as follows:		
	£	£
Excess of capital allowances over depreciation	4,743	4,954
Other timing differences – tax losses	145,167	154,972
	<hr/>	<hr/>
	149,910	159,926
	<hr/> <hr/>	<hr/> <hr/>

LUKE HUGHES & CO. LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2002 (continued)

7. Tangible fixed assets

	Leasehold improve- ments £	Plant, tools and machinery £	Fixtures, fittings and equipment £	Total £
Cost				
At 1 April 2001	58,325	35,797	274,087	368,209
Additions	2,775	-	26,000	28,775
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2002	61,100	35,797	300,087	396,984
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At 1 April 2001	13,164	35,796	199,820	248,780
Charge for year	5,941	-	36,249	42,190
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2002	19,105	35,796	236,069	290,970
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 March 2002	41,995	1	64,018	106,014
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2001	45,161	1	74,267	119,429
	<hr/>	<hr/>	<hr/>	<hr/>

LUKE HUGHES & CO. LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2002 (continued)

8. Stocks	2002	2001
	£	£
Finished goods and goods for sale	4,765	18,274
	<hr/>	<hr/>
9. Debtors	2002	2001
	£	£
Trade debtors	448,145	732,340
Other debtors	12,073	1,156
Prepayments	18,449	26,690
	<hr/>	<hr/>
	478,667	760,186
	<hr/>	<hr/>
10. Creditors: amounts falling due within one year	2002	2001
	£	£
Convertible loan stock (see below)	-	6,331
Deposits received (see below)	66,738	173,417
Trade creditors	305,006	421,708
Other taxation and social security	71,653	115,681
Other creditors	31,363	33,986
Accruals	154,805	165,969
	<hr/>	<hr/>
	629,565	917,092
	<hr/>	<hr/>

The Company's bankers have a mortgage debenture over all the assets of the Company.

Convertible loan stock

The convertible loan stock was repaid between 31 March 1995 and 31 March 2002 in eight equal instalments, including accrued interest. The loan stock accrued interest at 2% above bank base rate.

Deposits

Deposits are received from customers when furniture is ordered and, in ordinary circumstances, are not refundable.

LUKE HUGHES & CO. LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2002 (continued)

11. Called up share capital	2002 £	2001 £
Authorised		
704,500: (2001: 310,000) Ordinary Shares of 10p each	70,450	31,000
Nil (2001: 394,500) 'A' Ordinary Shares of 10p each:	-	39,450
216,000 (2001: 216,000) Redeemable Convertible Preference Shares of 50p each	108,000	108,000
Not designated	321,550	321,550
	<hr/>	<hr/>
	500,000	500,000
	<hr/>	<hr/>
Allotted, called up and fully paid		
285,543 (2001: 70,000) Ordinary Shares of 10p each:	28,554	7,000
Nil (2001: 215,543) 'A' Ordinary Shares of 10p each:	-	21,554
37,196 (2001: 37,196) Redeemable Convertible Preference Shares of 50p each	18,598	18,598
	<hr/>	<hr/>
	47,152	47,152
	<hr/>	<hr/>

At the Annual General Meeting of the Company and at separate Extraordinary General Meetings of the holders of the various classes of shares in the Company then in issue, all held on 27 September 2001:

- the 'A' Ordinary Shares of 10p each were redesignated as Ordinary Shares of 10p each
- certain of the rights attaching to the Redeemable Convertible Preference Shares of 50p each were amended to reflect the reality that the historic absence of distributable reserves had caused the originally scheduled redemption dates to be missed.

The Redeemable Convertible Preference Shares are eligible for a cumulative preferential dividend of 5% per annum on the Accrued Value (as defined in the Company's Articles of Association) of each of such shares from 1 April 2001, paid (subject to the availability of distributable profits and in priority to any dividend paid on the Ordinary Shares) annually on 1 April in arrears. To the extent that the preferential dividend is not paid, any unpaid amount is rolled up in the Accrued Value at which the Redeemable Convertible Preference Shares may, under certain conditions, be redeemed. The aggregate Accrued Value of the Redeemable Convertible Preference Shares as at 31 March 2002 was £173,017.

The Accrued Value of each Redeemable Convertible Preference Share as at 31 March 2002 was £4.65 and, on any distribution of assets on a winding up or other return of capital, ranks in priority to any such payment in respect of the Ordinary Shares.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2002 (continued)

11. Called up share capital (continued)

The Redeemable Convertible Preference Shares are entitled, at the election of the holder, to convert into fully paid Ordinary Shares at the rate of one Ordinary Share for each £6.86 of Accrued Value. The conversion date in each year shall be the date falling on the later of 31 October in that year and 28 days after the date on which the audited financial statements of the company are despatched to the holders of Redeemable Convertible Preference Shares (unless the company has given notice of its intention to redeem some or all of the Redeemable Convertible Preference Shares, in which case the conversion date is the day prior to the day on which the redemption is to be effected).

The Company is entitled to redeem the Redeemable Convertible Preference Shares, subject to the availability of distributable profits, at any time and is obliged annually to apply one third of its distributable profits as shown in the accounts of the Company for its last preceding accounting period in the redemption of any Redeemable Convertible Preference Shares as are outstanding and can be properly redeemed. The amount so payable shall in each case be the Accrued Value plus a sum equal to the fixed cumulative preferential dividend down to and including the redemption date. Where less than all the Redeemable Convertible Preference Shares are to be so redeemed, such shares are to be redeemed pro rata to each holder's holding of Redeemable Convertible Preference Shares.

The Company having no distributable profits as at 31 March 2002, no Redeemable Convertible Preference Shares fall to be redeemed compulsorily at present, nor was any cash dividend payable at this time.

The Redeemable Convertible Preference Shares carry voting rights only if any preference dividend which could lawfully have been paid is six months or more in arrears, where Redeemable Convertible Preference Shares which could lawfully have been redeemed are more than six months overdue or where the business of the relevant meeting includes a resolution affecting the rights attaching to the Redeemable Convertible Preference Shares (such voting rights arising only in relation to the resolution affecting the rights attaching to the Redeemable Convertible Preference Shares where no lawful dividend payment or redemption is six months overdue).

LUKE HUGHES & CO. LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2002 (continued)

12. Reserves	Share premium account £	Profit and loss Account £
At 1 April 2001	885,038	(923,530)
Retained (loss) for the year	-	(7,395)
Appropriation from equity to non-equity interests (see below)	-	11,947
Cancellation of share premium account	(885,038)	885,038
	<hr/>	<hr/>
At 31 March 2002	-	(33,940)
	<hr/>	<hr/>

The appropriation from equity to non-equity interests represents cumulative unpaid dividends on the Redeemable, Convertible, Preference Shares of 50p each. The appropriation for the year ended 31 March 2002 includes an under-provision of £3,708 in respect of prior years.

13. Reconciliation of movements in shareholders' funds	2002 £	2001 £
Retained (loss)/profit for the financial year	(7,395)	20,434
Appropriation from equity to non-equity interests	11,947	6,379
	<hr/>	<hr/>
Net addition to shareholders' funds	4,552	26,813
Opening shareholders' funds	8,660	(18,153)
	<hr/>	<hr/>
Closing shareholders' funds	13,212	8,660
	<hr/>	<hr/>

Reconciliation of movement in Redeemable Convertible Preference shareholders' interests including accrued value (see note 11):

	2002 £	2001 £
Non-equity interests at 1 April 2001	161,070	154,691
Dividend on Redeemable Convertible Preference Shares (see note 12)	11,947	6,379
	<hr/>	<hr/>
Non-equity interests at 31 March 2002	173,017	161,070
	<hr/>	<hr/>

LUKE HUGHES & CO. LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2002 (continued)

14. Commitments

At 31 March 2002 the Company had annual commitments under non cancellable operating leases as follows:

	2002		2001	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire:				
Within one year	-	3,239	-	541
Between two and five years	13,525	9,383	-	15,862
Over five years	45,500	177	45,500	-
	<hr/>	<hr/>	<hr/>	<hr/>
	59,025	12,799	45,500	16,403
	<hr/>	<hr/>	<hr/>	<hr/>

15. Ultimate controlling party

The Company does not have an ultimate controlling party as no individual shareholder controls a majority of the Company's voting rights.

16. Related party transactions

Rent totalling £7,889 was charged to the Company during the year in respect of a property used by the Company (2001: £ Nil). L A Hughes and A P Phipps own this property.