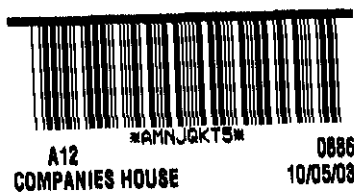


Ward Homes Limited

Directors' report and financial statements

31 October 2002

Registered Number: 329622



Ward Homes Limited

Directors' report and financial statements

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Ward Homes Limited

Directors' report

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

Principal activities

The principal activity of the company is house building and related activities.

Review of the year

Turnover decreased by £4,562,500 (8.3%) to £50,408,591. This was based on the sale of 262 houses with an average selling price of £192,000.

Pre-tax profits decreased to £8,848,183 (2001 : £8,891,632).

Proposed dividend and transfer to reserves

The results for the year are set out in the profit and loss account on page 5. No dividend is proposed (2001 : £5,000,000).

Directors and directors' interests

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

P.D. Holliday O.B.E. (Chairman)
J.M. Williams
R.D.K. Terry
M.D. Drury
R.C. Green
J.J. Trotter
F.T. Watkins
M.R. Lethaby
J.P. Burnell

None of the directors who held office at the end of the financial year had any disclosable interests in the shares of the company.

Mr P.D. Holliday, Mr J.M. Williams and Mr M.R. Lethaby are directors of the company's ultimate parent company, Ward Homes Group Limited and, accordingly, particulars of their interests in the shares of that company are included in the directors' report of Ward Homes Group Limited.

Directors' interests in shares and loan notes of ultimate parent company

At 31 October 2001 the ultimate parent company was Ward Homes Group Limited. During the year the entire share capital of Ward Homes Group Limited was purchased by Kealoha II Limited, as a result of this transaction the directors' interests in the share capital and loan notes of Ward Homes Group Limited were fully repaid and the directors acquired shares in the Kealoha II Limited. Following the transaction Ward Homes Group Limited and Kealoha II Limited swapped names. The disclosures given overleaf are therefore in relation to the old ultimate parent company at 31 October 2001 and the new ultimate parent company at 31 October 2002.

Ward Homes Limited

Directors' report (*continued*)

Directors' interests in shares and loan notes of ultimate parent company (*continued*)

Ward Homes Group Limited	Ordinary Shares 1p 2002 Number	Ordinary Shares 1p 2001 Number	Loan Notes 2002 £	Loan Notes 2001 £
J. J Trotter	34,430	21,560	-	2,440
F.T Watkins	31,664	21,373	-	1,627
J.P Burnell	8,850	3,733	-	16,267
M.D Drury	6,913	3,733	-	16,267
R.D.K Terry	2,766	1,867	-	8,133
R.C Green	-	-	-	-
	<u>84,623</u>	<u>52,266</u>	<u>-</u>	<u>44,734</u>

The loan notes were fully repaid in the year.

The interests of the other directors are disclosed in the accounts of Ward Homes Group Limited.

Employees

The company gives full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitude and abilities. It is the directors' policy to ensure that continued employment is offered to employees who become temporarily or permanently disabled. The training, career development and promotion of disabled persons employed by the company is an integral part of the personnel policy applicable to all employees. The company recognises the benefit of keeping employees informed of the progress of the business and of involving them in the company's performance. During the year, information regarding financial and economic factors affecting the performance of the company and other matters of concern to employees was regularly made available.

Creditors payment policy

It is the company's policy to pay all invoices from suppliers according to the agreed terms of payment, upon receipt of a valid invoice. The number of days billings from service suppliers outstanding at the end of the financial year for the company was 44 days.

Political and charitable contributions

The company made no political or charitable contributions during the year.

Auditors

A resolution to reappoint Deloitte & Touche as auditors will be proposed at the forthcoming Annual General Meeting.

By order of the Board


M.R. Lethaby

Secretary

26 February 2003

Ward Homes Limited

Statement of Directors' Responsibilities

United Kingdom 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 as at the end of the financial year and of the profit or loss 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining 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 the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report to the Members of Ward Homes Limited

We have audited the financial statements of Ward Homes Limited for the year ended 31 October 2002 which comprise the profit and loss account, the balance sheet and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and 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 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 and other members of the group is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

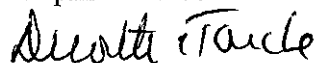
Basis of audit opinion

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 circumstances of the company and the group, 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 as at 31 October 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche
Chartered Accountants and Registered Auditors
London
27 February 2003

Ward Homes Limited

Profit and loss account

for the year ended 31 October 2002

	Note	2002 £	2001 £
Turnover	1	50,408,591	54,971,091
Cost of sales		(38,338,958)	(42,872,146)
Gross profit		<u>12,069,633</u>	<u>12,098,945</u>
Administrative expenses		(3,054,128)	(2,995,170)
Operating profit		<u>9,015,505</u>	<u>9,103,775</u>
Net interest payable	5	(167,322)	(212,143)
Profit on ordinary activities before taxation	2-4	<u>8,848,183</u>	<u>8,891,632</u>
Tax on profit on ordinary activities	6	(2,532,526)	(2,879,974)
Profit on ordinary activities after taxation		<u>6,315,657</u>	<u>6,011,658</u>
Dividends payable	7	-	(5,000,000)
Retained profit for the financial year	14	<u>6,315,657</u>	<u>1,011,658</u>

All operations relate to continuing operations.

The company has no recognised gains or losses in either 2002 or 2001 other than those reported in the profit and loss account above. Accordingly, no statement of total recognised gains and losses is required.

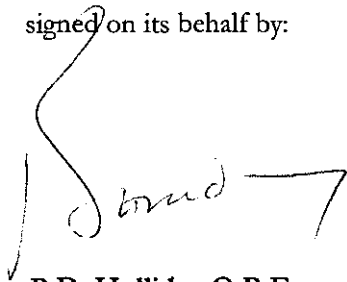
Ward Homes Limited

Balance sheet

as at 31 October 2002

	Note	2002	2001
		£	£
Fixed assets			
Tangible assets	8	289,469	323,700
Current assets			
Stocks	9	30,402,932	24,124,150
Debtors	10	8,054,051	6,512,990
Cash at bank and in hand		5,787,552	5,720,385
		<u>44,244,535</u>	<u>36,357,525</u>
Creditors: amount falling due within one year	11	<u>(19,417,329)</u>	<u>(17,880,207)</u>
Net current assets		<u>24,827,206</u>	<u>18,477,318</u>
Total assets less current liabilities		<u>25,116,675</u>	<u>18,801,018</u>
Capital and reserves			
Called up share capital	13	147,965	147,965
Share premium account		19,422	19,422
Profit and loss account	14	24,949,288	18,633,631
Equity shareholder's funds	15	<u>25,116,675</u>	<u>18,801,018</u>

These financial statements were approved by the Board of Directors on 26 February 2003 and were signed on its behalf by:



P.D. Holliday O.B.E.

Ward Homes Limited

Notes to the accounts

Year ended 31 October 2002

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

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

Fixed assets and depreciation

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

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:

Plant and Machinery	-	4 – 5 years
Fixtures and Fittings	-	2 – 5 years
Computer Equipment	-	4 years

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as operating leases and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Pensions costs

Contributions to defined benefit pension schemes are charged to the profit and loss account on a basis that spreads the expected cost of providing pensions over the remaining service lives of current employees in the schemes. Contributions to defined contribution schemes are charged directly to the profit and loss account.

Stocks

Stocks and work in progress are stated at the lower of cost and estimated net realisable value. In respect of work in progress, costs include labour, materials and relevant overheads. Land held for development is valued on a site by site basis at the lower of cost and net realisable value.

Ward Homes Limited

Notes to the accounts (*continued*)

Year ended 31 October 2002

1. Accounting policies (*continued*)

Deferred taxation

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

The company has adopted FRS19 "Deferred tax" for the 31 October 2002 financial statements. The adoption of this accounting standard did not require any material adjustment to the comparative figures and has not had a material effect on the current year's tax charge.

Turnover

Turnover represents the amounts receivable on the sale of own constructed houses and land. All turnover arose within the United Kingdom. Credit is taken for profit on house sales on the date at which the legal title to the property is transferred.

2. Profit on ordinary activities before taxation.

	2002 £	2001 £
Profit on ordinary activities before taxation is stated after charging:		
Depreciation	166,831	181,074
Loss on sale of fixed assets	-	795
Operating lease charges		
- plant and machinery	242,485	98,983
- other	-	23,440

Auditors' remuneration in the current and preceding year was borne by the ultimate parent company.

3. Directors' emoluments

	2002 £	2001 £
Directors' emoluments:	402,204	391,852

The emoluments, excluding pension contributions, of the highest paid director were £79,666 (2001 : £80,592). The number of directors who are members of the defined contribution scheme is 5 (2001: 6).

The pension contributions of the highest paid director were £3,483 (2001 : £3,300).

The emoluments of Mr P.D. Holliday, Mr J.M. Williams and Mr M.R. Lethaby were paid by the ultimate parent company, Ward Homes Group Limited, in the current year and by the immediate parent company, Ward Holdings Limited, in the preceding year.

Ward Homes Limited

Notes to the accounts *(continued)*

Year ended 31 October 2002

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
Management	9	9
Administration	22	22
Production and sales	67	58
	<u>98</u>	<u>89</u>

The aggregate payroll costs of these persons were as follows:

	2002	2001
	£	£
Wages and salaries	2,691,795	2,259,782
Social Security costs	263,010	224,681
Other pension costs (see note 17)	29,036	27,559
	<u>2,983,841</u>	<u>2,512,022</u>

5. Net interest payable

	2002	2001
	£	£
On bank loans and overdrafts	177,515	215,508
On other deposits	(10,193)	(3,365)
	<u>167,322</u>	<u>212,143</u>

6. Tax charge on profit on ordinary activities

	2002	2001
	£	£
UK corporation tax at 30% (2001: 30%)	2,716,698	2,689,974
Deferred taxation	(44,097)	-
Adjustment in respect of prior years:		
Corporation tax	(113,661)	190,000
Deferred tax	(26,414)	-
	<u>2,532,526</u>	<u>2,879,974</u>

The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK at 30% (2001 : 30%). The differences are explained overleaf.

Ward Homes Limited

Notes to the accounts (continued)

Year ended 31 October 2002

6. Tax charge on profit on ordinary activities (continued)

	2002 £	2001 £
Profit on ordinary activities before taxation	8,848,183	8,891,632
Tax at 30% thereon	2,654,455	2,667,490
Effects of:		
Expenses not deductible for tax purposes for tax purposes	58,209	12,302
Capital allowances in excess of depreciation	-	12,769
Movement in short term timing differences	3,158	(2,587)
Depreciation on ineligible fixed assets	876	-
Prior year adjustments	(113,661)	190,000
Total actual amount of current tax	<u>2,603,037</u>	<u>2,879,974</u>

7. Dividends

	2002 £	2001 £
Equity - Ordinary		
Final proposed : 169p per £0.05 share	<u>-</u>	<u>5,000,000</u>

8. Tangible fixed assets

	Plant and machinery £	Computer equipment, fixtures and fittings £	Total £
Cost			
At beginning of year	220,633	769,176	989,809
Additions	38,707	93,850	132,557
Reclassification	181,202	(181,202)	-
At end of year	<u>440,542</u>	<u>681,824</u>	<u>1,122,366</u>
Depreciation			
At beginning of year	217,778	448,328	666,106
Charge for year	59,860	106,931	166,791
Reclassification	68,385	(68,385)	-
At end of year	<u>346,023</u>	<u>486,874</u>	<u>832,897</u>
Net book value			
At 31 October 2002	<u>94,519</u>	<u>194,950</u>	<u>289,469</u>
At 31 October 2001	<u>2,855</u>	<u>320,848</u>	<u>323,700</u>

Ward Homes Limited

Notes to the accounts (continued)

Year ended 31 October 2002

8. Tangible fixed assets (continued)

Included in fixed assets are assets held under finance leases and hire purchase contracts as follows:

	Plant and machinery £	Fixtures and fittings £	Total £
Cost and at 1 November 2001 and 31 October 2002	32,750	161,309	194,059
Accumulated depreciation at 1 November 2001 and 31 October 2002	32,750	161,309	194,059

9. Stocks

	2002 £	2001 £
Stock of part exchange properties	992,728	1,281,550
Raw materials and consumables	104,725	120,343
Work in progress	15,312,606	8,020,441
Land	13,992,873	14,701,816
	<u>30,402,932</u>	<u>24,124,150</u>

10. Debtors

	2002 £	2001 £
Trade debtors	397,260	-
Amounts owed by group undertakings	6,476,531	6,172,887
Other debtors	1,160,831	334,553
Prepayments and accrued income	19,429	5,550
	<u>8,054,051</u>	<u>6,512,990</u>

Other debtors includes £70,511 (2001: £nil) in respect of deferred taxation (see note 12).

11. Creditors: amounts falling due within one year

	2002 £	2001 £
Trade creditors	5,703,857	3,896,741
Amounts owed to group undertakings	6,569,662	1,970,466
Corporation tax payable	1,653,343	2,036,111
Obligations under finance leases and hire purchase contracts	-	661
Other creditors including taxation and social security	-	-
Other taxes and social security	-	39,110
Other creditors	-	-
Accruals and deferred income	5,490,467	4,937,118
Proposed Dividend	-	5,000,000
	<u>19,417,329</u>	<u>17,880,207</u>

Ward Homes Limited

Notes to the accounts (*continued*)

Year ended 31 October 2002

12. Provisions for liabilities and charges

Deferred taxation	£
1 November 2001	-
Provided for in year	44,097
Prior year adjustment	26,414
Transferred to other debtors (see note 10)	(70,511)
31 October 2002	-

The provision for deferred taxation is in respect of accelerated capital allowances. There is no unprovided deferred taxation.

13. Share capital

	2002 £	2001 £
<i>Authorised:</i>		
3,000,000 Ordinary shares of 5p each	150,000	150,000
<i>Allotted, called up and fully paid:</i>		
2,959,300 Ordinary shares of 5p each	147,965	147,965

14. Profit and loss account

	2002 £
31 October 2001	18,633,631
Retained profit for the financial year	6,315,657
31 October 2002	24,949,288

15. Reconciliation of movements in shareholder's funds

	2002 £	2001 £
Profit for the financial year	6,315,657	1,011,658
Opening shareholder's funds	18,801,018	17,789,360
Closing shareholder's funds	25,116,675	18,801,018

16. Contingent liabilities

The company is party to a multilateral guarantee secured by fixed and floating charges in respect of amounts due on bank loans and overdrafts by Ward Homes Group Limited and its subsidiaries up to a maximum of £61.3m of which £46.8m was outstanding as at 31 October 2002.

Contingent liabilities in respect of performance bonds totalled £49,250 at 31 October 2002 (2001: £231,309).

Ward Homes Limited

Notes to the accounts (*continued*)

Year ended 31 October 2002

17. Pension Scheme

The Ward Holdings Limited Pension and Life Assurance Scheme was restructured in April 1993 and is being wound up with effect from 31 October 2000. Since that date no further contribution to the scheme has been made. The deficit on wind up has been fully provided in the Group's accounts.

In respect of service from that date the scheme now operates as a funded contribution scheme. For service to that date, benefits are provided on a funded defined benefit basis. The scheme is administered by trustees who are independent of the Group's finances and the contributions payable are age related. The scheme is being wound up with effect from 31 October 2000. The deficit has been fully provided in the group's accounts.

The company is unable to identify its share of the underlying assets and liabilities of the scheme. At 31 October 2002 a deficit of £697,000 was disclosed in the group accounts under the transitional arrangements of FRS17 "retirement benefits".

The most recent actuarial valuation of the defined benefit part of this scheme was at July 1999 and this indicated that the Scheme's assets of £1,890,500 exceeded the liabilities of the fund at that date equivalent to a funding level of 110%. The assumption which has the most significant effect on the results of the valuation is that relating to the rate of return on investments. It was assumed that the return would be equivalent to a rate of interest of 9 per cent per annum. Valuing the liabilities on the statutory Minimum Funding Requirements (MFR) basis, there is a shortfall of £266,596. This shortfall will be supported prior to the statutory date.

The group also operates an insured defined contribution scheme for which the company's pension charge for the year under review was £29,036 (2001 £27,599).

18. Operating lease commitments

At 31 October 2002 the company was committed to making the following payments during the next year in respect of operating leases for plant and machinery:

	2002 £'000	2001 £'000
Leases which expire:		
Within one year	111	-
Within two to five years	166	240
Greater than five years	-	-
	<hr/> 277	<hr/> 240

19. Ultimate Parent Company

The company is a subsidiary undertaking of Ward Holdings Limited. Its ultimate parent is Ward Homes Group Limited (formerly Kealoha II Limited), registered in England and Wales, which is the parent undertaking of the largest group which includes the company and for which group financial statements are prepared. The parent undertaking of the smallest such group is Ward Holdings Limited, registered in England and Wales.

Copies of the group financial statements of Ward Homes Group Limited and Ward Holdings Limited can be obtained from 2 Ash Tree Lane, Chatham, Kent.

Ward Homes Limited

Notes to the accounts *(continued)*

Year ended 31 October 2002

20. Related Party Transactions

The company is exempt from the requirements of the Financial Reporting Standard 8 ("Related Party Disclosures") insofar as it refers to transactions with fellow group companies, as it is a wholly-owned subsidiary of Ward Homes Group Limited.