COMPANY REGISTRATION NUMBER 836234

Folkes Properties Limited

Report and Financial Statements

31 December 2003

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Registered No: 836234

Directors
J Weston
P M Turner
A S Parker
C J Folkes
C S Griffin

Secretary
P M Turner

Auditors
Ernst & Young LLP
One Colmore Row
Birmingham
B3 2DB

Registered office
Forge House
Dudley Road
Lye
Stourbridge
West Midlands
DY9 8EL

Directors' report

The directors present their report and financial statements for the year ended 31 December 2003.

Results and dividends

The profit for the year, after taxation, amounted to £1,538,655. The directors do not recommend the payment of any dividends.

Principal activities and review of the business

The principal activity of the company during the year was as a property owning company.

The company has made a solid profit for the year. There has been an increase in the annualised rental level to £5,300,000 (2002: £5,032,000) at the end of the year. This level has been achieved from a combination of new lets at Old Forge, Stourbridge and Wendel Point, Wellingborough and an increase in rent roll from rent reviews.

The directors look forward to further progress in the ensuing year.

Post Balance Sheet Event

On 1 January 2004 following a review of operations undertaken by the parent company, Folkes Holdings Limited the principal property portfolio was transferred to Folkes Holdings Limited at book value. Properties retained under the ownership of the company are Kidderminster, Lincoln and Britannia Park.

Directors

The directors who served the company during the year were as follows:

J Weston
P M Turner
A S Parker
C J Folkes
C S Griffin

The interests of C J Folkes in Folkes Holdings Limited are shown in the Directors' Report of that company.

Auditors

A resolution to reappoint Ernst & Young LLP will be put to the members at the Annual General Meeting.

By order of the board

P M Turner
Secretary

23 June 2004

Statement of directors' responsibilities in respect of the financial statements

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 year. 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; 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 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.

Independent auditors' report
to the members of Folkes Properties Limited

We have audited the company's financial statements for the year ended 31 December 2003 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 16. These financial statements have been prepared on the basis of 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 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 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.

Independent auditors' report
to the members of Folkes Properties Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Birmingham
23 June 2004

Profit and loss account
for the year ended 31 December 2003

	Notes	2003 £	2002 £
Turnover	2	4,993,433	5,015,781
Administrative expenses		1,512,778	1,385,731
Operating profit	3	3,480,655	3,630,050
Interest payable	6	1,172,871	1,313,589
Profit on ordinary activities before taxation		2,307,784	2,316,461
Tax on profit on ordinary activities	7	769,129	880,832
Retained profit for the financial year		1,538,655	1,435,629

Statement of total recognised gains and losses
for the year ended 31 December 2003

	2003	*2002*
	£	*£*
Profit for the financial year	1,538,655	1,435,629
Unrealised surplus on revaluation of freehold property	1,807,373	4,200,739
Current UK corporation tax charge on sale of investment property	(18,483)	-
Total recognised gains and losses relating to the year	3,327,545	5,636,368

Note of historical cost profits and losses
for the year ended 31 December 2003

	2003	*2002*
	£	*£*
Profit on ordinary activities before taxation	2,307,784	2,316,461
Realisation of revaluation gains on properties sold	160,000	-
Historical cost profit on ordinary activities before taxation	2,467,784	2,316,461
Historical cost profit for the period after taxation and dividends	1,680,172	1,435,629

Balance sheet
at 31 December 2003

	Notes	2003 £	2002 £
Fixed assets			
Tangible assets	8	66,253,515	64,220,102
Investments	9	–	–
		66,253,515	64,220,102
Current assets			
Debtors	10	304,355	324,439
Creditors: amounts falling due within one year	11	30,923,549	32,385,513
Net current liabilities		(30,619,194)	(32,061,074)
Total assets less current liabilities		35,634,321	32,159,028
Provisions for liabilities and charges	7(c)	1,292,841	1,145,093
		34,341,480	31,013,935
Capital and reserves			
Called up share capital	13	10,000	10,000
Share premium account	14	111,494	111,494
Revaluation reserve	14	31,051,627	29,244,254
Other reserves	14	1,181,940	1,181,940
Profit and loss account	14	1,986,419	466,247
Equity shareholders' funds	14	34,341,480	31,013,935

P M Turner
Director

23 June 2004

Notes to the financial statements
at 31 December 2003

1. Accounting policies

Basis of preparation
The financial statements are prepared under the historical cost convention, as modified by the revaluation of properties, and in accordance with applicable accounting standards. The true and fair override provisions of the Companies Act 1985 have been invoked, see investment properties below.

Group financial statements
Group financial statements have not been prepared as the company is itself a subsidiary of Folkes Holdings Limited which prepares group financial statements. The company has therefore claimed the exemption conferred by section 228 of the Companies Act 1985.

Cash flow statement
The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes consolidated financial statements.

Related parties transactions
The company is a wholly owned subsidiary of Folkes Holdings Limited, the consolidated financial statements of which are publicly available. Accordingly, the company has taken advantage of the exemption in FRS 8 from disclosing transactions with members of, or investees in the Folkes Holdings group of companies.

Fixed assets
All fixed assets are initially recorded at cost. In accordance with FRS 15 the company will continue to revalue its freehold land and buildings on a regular basis.
Interest charges incurred relating to investment properties in the course of development to the date of completion are capitalised gross of tax.

Surpluses arising from the revaluation of assets are taken directly to the revaluation reserve except to the extent that they are reversals of losses previously recognised in the profit and loss account, in which case they are credited to the profit and loss account. Deficits are taken initially to the revaluation reserve until the carrying value of the assets equals its depreciated historical cost, and then to the profit and loss account.

Depreciation
Depreciation is provided on all tangible fixed assets, other than freehold land and investment properties, at rates calculated to write off the cost or valuation, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Freehold buildings occupied for group use	-	2%
Plant, machinery, fixtures and fittings	-	5% - 15%
Computers	-	25%
Motor vehicles	-	25%

Notes to the financial statements
at 31 December 2003

1. Accounting policies (continued)

Pension costs
The company along with other group undertakings participates in a defined benefit pension scheme for certain employees. This scheme is administered by trustees and is independent of the company's finances and on the advice of external actuaries is funded by contributions from the company and the employees. Details of the latest actuarial valuations may be found in the accounts of the ultimate parent undertaking, Folkes Holdings Limited. Separate disclosures are not given in respect of the company since it is unable to identify its share of the underlying assets and liabilities. Contributions to this fund are charged in the profit and loss account so as to spread the cost of pensions over the employees' working lives within the group. Differences between the amounts funded and the amounts charged in the profit and loss account are treated as either provisions or prepayments in the balance sheet.

The cost of defined contribution schemes are charged to the profit and loss account as contributions become payable in accordance with the rules of the scheme.

Investment properties
Investment properties are accounted for in accordance with SSAP 19 (revised), as follows:

(i) Investment properties are revalued annually and the surplus or deficit arising is transferred to a revaluation reserve unless a deficit is expected to be permanent, in which case it is charged to the profit and loss account.
(ii) No depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years unexpired.

Although the Companies Act 1985 would normally require the systematic annual depreciation of fixed assets, the directors believe that this policy of not providing depreciation or amortisation is necessary in order for the financial statements to give a true and fair view, since the current value of investment properties, and changes in that current value, are of prime importance rather than a calculation of systematic annual depreciation. Depreciation or amortisation is only one of the many factors reflected in the annual valuation, and the amount, which might otherwise have been shown, cannot be separately identified or quantified.

Deferred taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

2. Turnover
Turnover represents income from rental of property within the United Kingdom, excluding value added tax.

Notes to the financial statements
at 31 December 2003

3. Operating profit

This is stated after charging/crediting:

	2003 £	2002 £
Auditors' remuneration - audit services	7,000	7,000
Depreciation of owned fixed assets	48,206	55,966
(Profit)/loss on disposal of fixed assets	(6,018)	7,178

4. Staff costs

	2003 £	2002 £
Wages and salaries	168,529	195,748
Social security costs	16,981	16,950
Pensions costs	10,468	15,638
	195,978	228,336

The monthly average number of employees during the year was as follows:

	2003 No.	2002 No.
Administrative	3	4
Works	3	3
	6	7

5. Directors' emoluments

	2003 £	2002 £
Emoluments	149,911	148,994
Contributions to money purchase pension schemes	6,997	-

The two directors of the company who received emoluments during the year and the preceding year are members of a group defined benefit pension arrangement. For the current year the two directors are also members of a money purchase pension scheme.

6. Interest

	2003 £	2002 £
Bank interest payable	1,172,871	1,313,589

Notes to the financial statements
at 31 December 2003

7. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2003	*2002*
	£	*£*
Current tax:		
UK corporation tax	603,062	520,000
Tax under provided in previous years	18,319	185,121
Total current tax (note 7(b))	621,381	705,121
Deferred tax:		
Origination and reversal of timing differences	147,748	175,711
Tax on profit on ordinary activities	769,129	880,832

(b) Factors affecting the current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2002 - 30%). The differences are reconciled below:

	2003	*2002*
	£	*£*
Profit on ordinary activities before taxation	2,307,784	2,316,461
Profit on ordinary activities multiplied by the standard rate of tax	692,335	694,938
Disallowed costs	58,475	773
Accelerated capital allowances	(147,748)	(175,711)
Tax underprovided in previous years	18,319	185,121
Total current tax (note 7(a))	621,381	705,121

(c) Deferred tax

Provided

The movement in deferred taxation provision for the year is as follows:

	£
At January 2003	1,145,093
Charge for the year	147,748
At 31 December 2003	1,292,841

	2003	*2002*
	£	*£*
Capital allowances in advance of depreciation	1,292,841	1,145,093

Not provided

	2003	*2002*
	£	*£*
Tax on revaluation surpluses	3,000,000	2,500,000

A revised assessment of the potential deferred tax on revaluation surpluses has been obtained. The comparative information has been amended accordingly.

Notes to the financial statements
at 31 December 2003

8. Tangible fixed assets

	Freehold land & buildings £	*Plant, machinery, vehicles & equipment* £	*Total* £
Cost or valuation:			
At 1 January 2003	64,191,000	270,481	64,461,481
Additions	640,627	18,255	658,882
Group transfers	–	5,495	5,495
Surplus on revaluation	1,774,371	–	1,774,371
Disposals	(382,787)	(33,129)	(415,916)
At 31 December 2003	66,223,211	261,102	66,484,313
Depreciation:			
At 1 January 2003	–	241,379	241,379
Provided during the year	33,002	15,204	48,206
Group transfers	–	1,603	1,603
Surplus on revaluation	(33,002)	–	(33,002)
Disposals	–	(27,388)	(27,388)
At 31 December 2003	–	230,798	230,798
Net book value:			
At 31 December 2003	66,223,211	30,304	66,253,515
At 1 January 2003	64,191,000	29,102	64,220,102

Included in freehold land and buildings costs are amounts in respect of interest capitalised of £1,218,837 (2002 - £1,218,837).

Freehold land and buildings include investment properties valued at £62,887,211 (2002: £60,019,000).

The net book value of freehold land and buildings under the historical cost convention would have been included at £35,331,584 (2002: £34,946,746).

A review of the valuation of the properties was carried out as at 31 December 2003 by Phoenix Beard, Chartered Surveyors. The investment properties were valued on an open market basis and other properties on an existing use basis. The valuation totalled £66,223,211. The last full valuation in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors was carried out as at 31 December 2002.

Notes to the financial statements
at 31 December 2003

9. Investments

	Shares in subsidiary undertaking £
Cost:	
At 1 January 2003 and 31 December 2003	374,785
Amounts provided:	
At 1 January 2003 and 31 December 2003	374,785
Net book value:	
At 1 January 2003 and 31 December 2003	–

The company owns 100% of the issued share capital of Newbank Construction (Halesowen) Limited, a property investment company, which is registered in England and Wales.

In the opinion of the directors the aggregate value of the company's assets comprising of shares in subsidiary undertakings and amounts owing from subsidiary undertakings is not less than the aggregate value of the amounts included in the Balance Sheet.

10. Debtors

	2003 £	*2002* £
Trade debtors	135,290	57,079
Amounts owed by group undertakings	154,359	151,476
Other debtors	14,706	114,512
Prepayments	-	1,372
	304,355	324,439

11. Creditors: amounts falling due within one year

	2003 £	*2002* £
Bank overdraft	22,777,217	21,717,825
Trade creditors	1,049,424	1,334,832
Amounts owed to group undertakings	5,007,859	7,082,253
Corporation tax	144,460	314,057
Other taxation and social security	209,662	402,902
Other creditors	1,697,710	1,516,358
Accruals and deferred income	37,217	17,286
	30,923,549	32,385,513

Notes to the financial statements
at 31 December 2003

12. Contingent liability

The Company is party to an unlimited guarantee to secure balances due to bankers by certain members of the group headed by Folkes Holdings Limited. At 31 December 2003 the secured bank borrowings were £27,720,000 (2002: £24,750,000).

13. Share capital

	Authorised	
	2003	*2002*
	£	*£*
Ordinary shares of £1 each	10,000	10,000

	Allotted, called up and fully paid			
	2003		*2002*	
	No.	*£*	*No.*	*£*
Ordinary shares of £1 each	10,000	10,000	10,000	10,000

14. Reconciliation of shareholders' funds and movement on reserves

	Share capital	*Share premium account*	*Revaluation reserve*	*Capital Reserve*	*Profit and loss account*	*Total share-holders' funds*
	£	*£*	*£*	*£*	*£*	*£*
At 1 January 2002	10,000	111,494	25,043,515	1,181,940	(969,382)	25,377,567
Profit for the year	–	–	–	–	1,435,629	1,435,629
Revaluation surplus	–	–	4,200,739	–		4,200,739
At 31 December 2002	10,000	111,494	29,244,254	1,181,940	466,247	31,013,935
Profit for the year	–	–	–	–	1,538,655	1,538,655
Revaluation surplus	–	–	1,807,373	–	–	1,807,373
Tax charge on sale of investment property	–	–	–	–	(18,483)	(18,483)
At 31 December 2002	10,000	111,494	31,051,627	1,181,940	1,986,419	34,341,480

The revaluation reserve includes £28,821,700 (2002 - £27,024,014) in respect of investment properties.

15. Post balance sheet event

On 1 January 2004 following a review of operations undertaken by the parent company, Folkes Holdings Limited principal property portfolio was transferred to Folkes Holdings Limited at book value. Properties retained under the ownership of the company are Kidderminster, Lincoln and Britannia Park.

16. Ultimate parent company

The Company's immediate parent undertaking is John Folkes (Lye Forge) Limited.

The Company's ultimate parent undertaking is Folkes Holdings Limited, a company registered in England and Wales. Folkes Holdings Limited is the parent company of the only group of which the company is a member and for which group financial statements are drawn up. Consolidated financial statements of the group are available to the public from Companies House, Crown Way, Cardiff, CF14 3UZ.