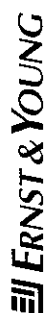


# Folkes Properties Limited

## Report and Financial Statements

31 December 2002

 ERNST & YOUNG



# Folkes Properties Limited

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 2002.

### Results and dividends

The profit for the year, after taxation, amounted to £1,435,629. 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 £5,032,000 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.

### Directors

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

J Weston	
P M Turner	
A S Parker	
C J Folkes	(Appointed 11 March 2002)
C S Griffin	(Appointed 23 April 2002)
I Fox	(Resigned 11 March 2002)
D J Newey	(Resigned 11 March 2002)
J J Hartley	(Resigned 11 March 2002)
F Coyle	(Resigned 8 February 2002)

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

### Auditors

During the year Ernst & Young LLP replaced Clement Keys as auditors of the company.

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

29 October 2003

## **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 2002 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**

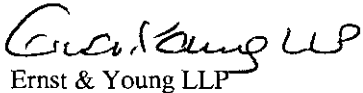
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates 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 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP  
Registered Auditor  
One Colmore Row  
Birmingham  
B3 2DB

30 OCTOBER 2003

**Profit and loss account**  
for the year ended 31 December 2002

	Notes	2002 £	2001 (restated) £
<b>Turnover</b>	2	5,015,781	4,920,946
Administrative expenses		1,385,731	389,355
<b>Operating profit</b>	3	3,630,050	4,531,591
Interest payable	6	1,313,589	1,376,223
<b>Profit on ordinary activities before taxation</b>		2,316,461	3,155,368
Tax on profit on ordinary activities	7	880,832	1,093,611
<b>Profit on ordinary activities after taxation</b>		1,435,629	2,061,757
Ordinary dividends on equity shares		–	2,256,957
<b>Retained profit /(deficit) for the financial year</b>		1,435,629	(195,200)

## Statement of total recognised gains and losses

for the year ended 31 December 2002

	2002	2001 (restated)
	£	£
Profit for the financial year	1,435,629	2,061,757
Unrealised surplus/(deficit) on revaluation of freehold property	4,200,739	(387,670)
Total recognised gains and losses relating to the year	5,636,368	1,674,087
Prior year adjustment (see note 1)	(969,382)	
Total gains and losses recognised since the last annual report	4,666,986	

## Note of historical cost profits and losses

for the year ended 31 December 2002

There are no material differences between the reported profit and that on an unmodified historical cost basis.



**Balance sheet**

at 31 December 2002

	Notes	2002 £	2001 (restated) £
<b>Fixed assets</b>			
Tangible assets	8	64,220,102	60,157,370
Investments	9	—	—
		<u>64,220,102</u>	<u>60,157,370</u>
<b>Current assets</b>			
Debtors	10	324,439	64,474
<b>Creditors:</b> amounts falling due within one year	11	32,385,513	33,534,500
<b>Net current liabilities</b>		<u>(32,061,074)</u>	<u>(33,470,026)</u>
<b>Total assets less current liabilities</b>		32,159,028	26,687,344
<b>Provisions for liabilities and charges</b>	12	1,145,093	1,309,777
		<u>31,013,935</u>	<u>25,377,567</u>
<b>Capital and reserves</b>			
Called up share capital	14	10,000	10,000
Share premium account	15	111,494	111,494
Revaluation reserve	15	29,244,254	25,043,515
Other reserves	15	1,181,940	1,181,940
Profit and loss account	15	466,247	(969,382)
<b>Equity shareholders' funds</b>	15	<u>31,013,935</u>	<u>25,377,567</u>



P M Turner  
Director

29 October 2003

## Notes to the financial statements

at 31 December 2002

### 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.

Financial Reporting Standard 19 - Deferred Tax (FRS 19) has been adopted for the first time by the company in these financial statements.

In previous years the company had complied with Statement of Standard Accounting Practice 15 - Deferred Taxation (SSAP 15) which has been superseded by the introduction of FRS 19. SSAP 15 required provision for deferred tax to be made using the liability method to the extent that net deferred tax assets or liabilities were likely to crystallise in the foreseeable future. This method was commonly referred to as the partial provision method. FRS 19, by contrast requires a form of full provisioning.

The effect of the implementation of FRS 19 on reported results for the company is as follows:-

	2002 £	2001 £
Tax on profit	(175,711)	(195,200)
Reduction in profit in the period	(175,711)	(195,200)
Deferred tax provision	(1,145,093)	(969,382)
Net assets	(1,145,093)	(969,382)

The adoption of FRS 19 has resulted in the provision for deferred tax liabilities in respect of accelerated capital allowances.

The implementation of FRS 19 does not affect the company's cash or borrowings position.

#### *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 or investees of the Folkes group.

#### *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.

## Notes to the financial statements

at 31 December 2002

### 1. Accounting policies (continued)

#### **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.

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, 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%

#### **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 a discounted/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.

## Notes to the financial statements

at 31 December 2002

### 2. Turnover

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

### 3. Operating profit

This is stated after charging:

	2002 £	2001 £
Auditors' remuneration - audit services	7,000	5,550
Depreciation of owned fixed assets	55,966	59,235
Loss on disposal of fixed assets	7,178	4,798

### 4. Staff costs

	2002 £	2001 £
Wages and salaries	195,748	297,817
Social security costs	16,950	27,741
Pensions costs	15,638	26,219
	228,336	351,777

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

	2002 No.	2001 No.
Administrative	4	5
Works	3	4
	7	9

### 5. Directors' emoluments

	2002 £	2001 £
Emoluments	148,994	249,932

The three directors of the company who received emoluments during the year and the preceding year are members of a group defined benefit pension arrangement.

The emoluments of the highest paid director during the year ended 31 December 2001 were £88,525.

### 6. Interest payable

	2002 £	2001 £
Bank interest payable	1,313,589	1,376,223

# Notes to the financial statements

at 31 December 2002

## 7. Tax

### (a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2002 £	2001 (restated) £
<i>Current tax:</i>		
UK corporation tax	520,000	755,010
Tax under provided in previous years	185,121	143,401
Total current tax (note 7(b))	<u>705,121</u>	<u>898,411</u>
<i>Deferred tax:</i>		
Origination and reversal of timing differences	175,711	195,200
Tax on profit on ordinary activities	<u>880,832</u>	<u>1,093,611</u>

### (b) Factors affecting the current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2001 - 30%). The differences are reconciled below:

	2002 £	2001 (restated) £
Profit on ordinary activities before taxation	<u>2,316,461</u>	<u>3,155,368</u>
Profit on ordinary activities multiplied by the standard rate of tax	694,938	946,610
Expenses not deductible for tax purposes	773	3,600
Accelerated capital allowances	(175,711)	(195,200)
Tax under provided in previous years	185,121	143,401
Total current tax (note 7(a))	<u>705,121</u>	<u>898,411</u>

### (c) Deferred tax

#### *Provided*

	2002 £	2001 (restated) £
Capital allowances in advance of depreciation	<u>1,145,093</u>	<u>969,382</u>

#### *Not provided*

	2002 £	2001 (restated) £
Tax on revaluation surpluses	<u>1,200,000</u>	<u>1,100,000</u>

## Notes to the financial statements

at 31 December 2002

## 8. Tangible fixed assets

	<i>Freehold land &amp; buildings £</i>	<i>Plant, machinery, vehicles &amp; equipment £</i>	<i>Total £</i>
Cost or valuation:			
At 1 January 2002	60,169,500	295,901	60,465,401
Additions	91,637	22,815	114,452
Surplus on revaluation	4,101,863	–	4,101,863
Disposals	(172,000)	(48,235)	(220,235)
At 31 December 2002	64,191,000	270,481	64,461,481
Depreciation:			
At 1 January 2002	65,874	242,157	308,031
Provided during the year	33,002	22,964	55,966
Surplus on revaluation	(98,876)	–	(98,876)
Disposals	–	(23,742)	(23,742)
At 31 December 2002	–	241,379	241,379
Net book value:			
At 31 December 2002	64,191,000	29,102	64,220,102
At 1 January 2002	60,103,626	53,744	60,157,370

Freehold land and buildings include investment properties valued at £60,019,000 (2001: £56,437,500).

An external revaluation of all properties was carried out as at 31 December 2002 by Phoenix Beard, Chartered Surveyors. The properties were valued in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors on an open market basis, except those principally occupied by Folkes Holdings Limited or one of its subsidiaries which were valued on the basis of existing use value.

The net book value of freehold land and buildings under the historical cost convention would have been included at £34,946,746 (2001: £35,060,111).

Included in freehold land and buildings historical costs are amounts in respect of interest capitalised of £1,218,837 (2001 - £1,218,837).

## 9. Investments

	<i>Shares in subsidiary undertaking £</i>
Cost:	
At 1 January 2002 and 31 December 2002	374,785
Amounts provided:	
At 1 January 2002 and 31 December 2002	374,785
Net book value:	
At 1 January 2002 and 31 December 2002	–

## Notes to the financial statements

at 31 December 2002

### 9. Investments (continued)

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

	2002 £	2001 £
Trade debtors	57,079	32,425
Amounts owed by group undertakings	151,476	–
Other debtors	114,512	30,177
Prepayments	1,372	1,872
	<u>324,439</u>	<u>64,474</u>

### 11. Creditors: amounts falling due within one year

	2002 £	2001 £
Bank overdraft	21,717,825	22,179,091
Trade creditors	1,334,832	1,146,236
Amounts owed to group undertakings	7,082,253	6,561,104
Corporation tax	314,057	19,519
Other taxation and social security	402,902	208,668
Other creditors	1,516,358	1,131,576
Accruals and deferred income	17,286	31,349
Proposed final dividend	–	2,256,957
	<u>32,385,513</u>	<u>33,534,500</u>

### 12. Provisions for liabilities and charges

	Deferred tax (note 7(c)) £	Tax review costs £	Total £
At 1 January 2002	969,382	340,395	1,309,777
Charge for the year	175,711	64,700	240,411
Transfer to Creditors: amounts falling due within one year	–	(405,095)	(405,095)
At 31 December 2002	<u>1,145,093</u>	<u>–</u>	<u>1,145,093</u>

The tax review costs provision related to the estimated tax and VAT which may arise from the settlement with the Inland Revenue and HM Customs & Excise, following the review of the taxation affairs of Folkes Group Limited and related subsidiaries.

# Notes to the financial statements

at 31 December 2002

## 13. 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 plc (now renamed Folkes Group Limited). At 31 December 2002 the secured bank borrowings were £24,750,000.

At 31 December 2001 similar guarantees had been given in respect of certain borrowings of members of the group headed by Folkes Group Limited. These borrowings amounted to nil at that date.

## 14. Share capital

Share Capital		2002		Authorised 2001	
		£		£	
Ordinary shares of £1 each		10,000		10,000	
		<hr/>		<hr/>	
		Allotted, called up and fully paid			
	No.	2002 £	No.	2001 £	
Ordinary shares of £1 each	10,000	10,000	10,000	10,000	

## 15. Reconciliation of shareholders' funds and movement on reserves

	Share capital £	Share premium account £	Revaluation reserve £	Capital Reserve £	Profit and loss account (restated) £	Total share- holders' funds (restated) £
At 1 January 2001:						
As originally stated	10,000	111,494	25,431,185	1,181,940	-	26,734,619
Prior year adjustment	-	-	-	-	(774,182)	(774,182)
As restated	10,000	111,494	25,431,185	1,181,940	(774,182)	25,960,437
Profit for the year	-	-	-	-	2,061,757	2,061,757
Dividends	-	-	-	-	(2,256,957)	(2,256,957)
Revaluation deficit	-	-	(387,670)	-	-	(387,670)
At 31 December 2001	10,000	111,494	25,043,515	1,181,940	(969,382)	25,377,567
At 1 January 2002:						
As originally stated	10,000	111,494	25,043,515	1,181,940	-	26,346,949
Prior year adjustment	-	-	-	-	(969,382)	(969,382)
As restated	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

Details of the prior year adjustment are set out in note 1 to the financial statements.

The revaluation reserve includes £27,024,014 (2001 - £23,365,151) in respect of investment properties.



## Notes to the financial statements

at 31 December 2002

### 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. Consolidated financial statements of the group are available to the public from Companies House, Crown Way, Cardiff, CF14 3UZ.

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.