Avonside Group Holdings Limited

Directors' report and financial statements

Registered number 2666866

31 December 2002

Contents

Directors' report

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

Principal activities

The company is a holding company.

The principal activity of the group is the provision of services to housebuilders in the United Kingdom.

Business review

The directors consider the results for the year to be satisfactory.

Proposed dividend

An interim dividend of £nil *(2001: £nil)* was paid during the year. The directors recommend the payment of a final dividend of £nil *(2001: £nil)*.

Directors and directors' interests

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

J J Walker	
S Murray	(resigned 5 April 2003)
A Burke	(resigned 17 September 2003)
R Dickinson	(resigned 12 August 2003)
S Sayers	(resigned 12 August 2003)

J J Walker is a director of the company's parent company, Avonside Group Limited, and his interest in the share capital of that company is disclosed in the directors' report of that company.

S Murray, R Dickinson, S Sayers and A Burke each had an interest of 18,000 ordinary shares in Avonside Group Limited at 31 December 2002. S Murray was a director of Avonside Group Limited prior to his resignation on 5 April 2003.

According to the register of directors' interests, no rights to subscribe for shares in the company were granted to any of the directors or their immediate families, or exercised by them, during the year.

Post balance sheet events

Since the year end the Company has withdrawn from its involvement in sub contract services to housebuilders following the disposals detailed in note 20 to these accounts. Both disposals were to management teams.

Fixed assets

In the opinion of the directors the market value of the company's properties held as fixed assets at the end of the financial year was not materially different to their net book value.

Political and charitable contributions

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

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Director's report *(continued)*

Approval

The report of the directors was approved by the Board on 16 October 2003 and signed on its behalf by:

J J Walker
Director

Churchill House
Regent Road
Stoke on Trent
ST1 3RQ

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 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, subject to any material departures disclosed and explained in the financial statements;
- 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

KPMG LLP
St James' Square
Manchester
M2 6DS
United Kingdom

Report of the independent auditors to the members of Avonside Group Holdings Limited

We have audited the financial statements on pages 5 to 17.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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.

Basis of audit opinion

We conducted our audit in accordance with 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 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

20th October 2003

Profit and loss account
for the year ended 31 December 2002

	Note	2002	2001 (as restated)
		£000	£000
Staff costs	3	(788)	(723)
Depreciation		(32)	(40)
Other operating charges (excluding exceptional items)		(614)	(489)
Exceptional items	2	(1,728)	(69)
Total operating charges		(2,342)	(558)
Management income		467	-
Operating loss		(2,695)	(1,321)
Interest receivable	5	269	388
Interest payable	6	(129)	(65)
Income from shares in Group undertakings		-	1,018
Amounts written off investments	9	-	(4,983)
Loss on ordinary activities before taxation	2	(2,555)	(4,963)
Tax on loss on ordinary activities	7	(99)	233
Loss for the financial year		(2,654)	(4,730)
Dividends paid		-	-
Retained loss for the year	14	(2,654)	(4,730)

The notes on pages 8 to 17 form part of these accounts.

Balance sheet
at 31 December 2002

	Note	2002		2001 (as restated)	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	8	437		213	
Investments	9	10,669		10,419	
			11,106		10,632
Current assets					
Debtors	10	7,884		5,339	
Cash at bank and in hand		-		2,755	
		7,884		8,094	
Creditors: amounts falling due within one year	11	(9,008)		(6,076)	
Net (liabilities)/current assets			(1,124)		2,018
Total assets less current liabilities			9,982		12,650
Creditors: amounts falling due after more than one year	12		-		(14)
Net assets			9,982		12,636
Capital and reserves					
Called up share capital	13		10,175		10,175
Share premium account	14		631		631
Capital redemption reserve	11		709		709
Profit and loss account	11		(1,533)		1,121
Equity shareholders' funds	15		9,982		12,636

These financial statements were approved by the board of directors on 16 October 2003 and were signed on its behalf by:

J Walker
Director

Statement of total recognised gains and losses
for the year ended 31 December 2002

	2002 **£000**	2001 £000 (as restated)
Loss for the financial year	**(2,654)**	(4,730)
Total recognised losses relating to the financial year	**(2,654)**	(4,730)
Prior year adjustment (as explained in note10)	**5**	
Total recognised losses since the last annual report	**(2,649)**	

Notes

(forming part of the financial statements)

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 except as noted below. The company has adopted FRS 19 'Deferred Tax' in these financial statements. The comparative figures have been restated accordingly.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standard under the historical cost convention.

Group accounts

The company has taken advantage of the exemption conferred by Section 228 of the Companies Act 1985 from preparing Group accounts. The results have been included in the consolidated accounts of the parent undertaking, Avonside Group Limited, a company registered in England and Wales.

Cash flow statement

Avonside Group Holdings Limited is a wholly owned subsidiary of a company registered in England and Wales which will publish, as part of its own accounts, a consolidated cash flow statement which complies with FRS1. Thus Avonside Group Holdings Limited has taken advantage of the exemption under FRS1 and has not presented its own cash flow statement.

Tangible fixed assets and depreciation

Depreciation is provided evenly on the cost of tangible fixed assets to write them down to their estimated residual values over their expected useful lives. No depreciation is provided on freehold land. The principal annual rates used for other assets are:

Freehold buildings	-	2%
Fixtures, fittings and equipment	-	10% to 25%
Motor vehicles	-	10% to 25%

Freehold land is not depreciated.

Where there is evidence of impairment, fixed assets are written down to recoverable amounts. Any such write down would be charged to operating profit.

Leased assets

Assets acquired under finance leases are included in the balance sheet at cost less depreciation in accordance with the company's normal accounting policies. The present value of future rentals is shown as a liability. The interest element of rental obligations is charged to the profit and loss account over the period of the lease in proportion to the balance of capital repayments outstanding.

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the terms of the lease.

Post retirement benefits

Pension costs for defined contribution schemes are charged to the profit and loss account in the period for which contributions are payable.

Notes *(continued)*

1 Accounting policies *(continued)*

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Investments

Investments are stated at cost less provision for impairment where necessary to reduce book value to recoverable amount. Cost is purchase price including acquisition expenses.

2 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is arrived at after charging:	**2002**	*2001*
	£000	£000
Operating lease rentals	**52**	40
Auditors' remuneration – Audit services	**9**	12
Auditors' remuneration – Non- audit services	**109**	17
Depreciation and other amounts written off tangible fixed assets	**32**	40
Exceptional items	**1,728**	269
Profit on disposal of fixed assets	**(7)**	-
Amounts written off investments	**-**	4,983

The exceptional items in the year comprise:-

	2002	2001
	£000	£000
Onerous lease costs	**164**	-
Intercompany account written off (Avonside Window Systems Limited)	**1,370**	-
Insurance cost resulting from the demise of Independent Insurance plc	**-**	69
Amounts provided against loan to Avonside Timber Frame	**194**	-
	1,728	69

3 Staff numbers and costs

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

	2002	*2001*
	No	No
Sales, finance and administration	**10**	5
Directors	**5**	5
	15	10

Notes *(continued)*

3 Staff numbers and costs *(continued)*

	2002 £000	2001 £000
Wages and salaries	**656**	602
Social security costs	**75**	67
Pension costs	**57**	54
	788	723

4 Remuneration of directors

	2002 £000	2001 £000
Directors' remuneration was as follows:		
Basic salary and fees	**389**	258
Performance related bonus	**38**	95
Pension contributions to defined contribution schemes	**38**	25
	465	378

	2002 £000	2001 £000
The remuneration of the highest paid executive director was as follows:		
Basic salary	**149**	109
Performance related bonus	**-**	40
Pension	**15**	11
	164	160

Retirement benefits are accruing to four directors (*2001: four*) under a money purchase scheme.

No director has a material interest in any contract of significance in relation to the business of the company and its subsidiary undertakings.

5 Other interest receivable and similar income

	2002 £000	2001 £000
Bank interest receivable	**269**	388

Notes *(continued)*

6 Interest payable and similar charges

	2002 £000	2001 £000
On bank overdrafts and other loans	**127**	64
Hire purchase interest	**2**	1
	129	65

7 Taxation

	2002 £000	2001 (as restated) £000
UK Corporation tax		
Current tax on income for the period	**(44)**	(228)
Adjustment in respect of prior periods	**142**	-
Total current tax	**98**	(228)
Origination / reversal of timing differences	**1**	(5)
Total deferred tax	**1**	(5)
Tax on loss on ordinary activities	**99**	(233)

Factors affecting the tax charge for the current period

The current tax charge for the year is higher (2001: lower) than the standard rate of corporation tax in the UK (30%, 2001: 30%). The differences are explained below.

	2002 £000	2001 (restated) £000
Current tax reconciliation		
Loss on ordinary activities before tax	**(2,555)**	(4,963)
Current tax at 30% (2001: 30%)	**(766)**	(1,489)
Effects of:		
Expenses not deductible for tax purposes	**477**	1,271
Capital allowances for period in excess of depreciation	**(1)**	(2)
Trading losses carried forward	**246**	-
Prior year adjustment	**142**	-
Short term timing differences	**-**	(8)
Total current tax charge/(credit) (see above)	**98**	(228)

Notes *(continued)*

8 *Tangible fixed assets*

Group	**Freehold land and buildings** £000	**Fixture and fittings** £000	**Motor vehicles** £000	**Total** £000
Cost				
At 1 January 2002	116	52	157	325
Additions	-	6	-	6
Disposals	(10)	(4)	(212)	(226)
Group transfers in/(out)	391	-	55	446
At 31 December 2002	497	54	-	551
Depreciation				
At 1 January 2002	-	34	78	112
Charged for year	-	12	20	32
On disposals	-	(2)	(127)	(129)
Group transfers in/(out)	70	-	29	99
At 31 December 2002	70	44	-	114
Net book value				
At 31 December 2002	**427**	**10**	-	**437**
At 1 January 2002	116	18	79	213

Included in the total net book value of tangible fixed assets is £nil (*2001: £57,000*) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £nil (*2001: £13,000*).

Notes *(continued)*

9 *Fixed assets investments*

	Shares in group undertakings £000	Other investments £000	Total £000
Cost			
At beginning of year	34,115	-	34,115
Movement during the year	*250*	*200*	*450*
At end of year	34,365	200	34,565
Provisions			
At beginning and end of year	23,696	200	23,896
Net book value			
At 31 December 2002	***10,669***	**-**	***10,669***
At 1 January 2002	10,419	-	10,419

During the year the remainder of the loan made to Avonside Timber frame was converted to preference shares, however the loan was previously provided for therefore the balance at the beginning of the year has been adjusted to reflect this.

Company	**Country of incorporation**	**Principal activity**	**Interest in ordinary shares %**
Avonside Houses Limited	England	Dormant	100%
Avonside Plumbing & Heating (North West) Limited	England	Plumbing and heating contractors	100%
Avonside Roofing Limited	England	Roofing contractors	100%
Parry Homes Limited	England	Property development	100%
Avonside Holdings Limited	England	Dormant	100%
Joshua & Tom Taylor Limited	England	Property management	100%

Avonside Plumbing and Heating (North West) Limited and Avonside Roofing Limited have been disposed of since the year end (see note 20).

Notes *(continued)*

10 Debtors

	2002	2001 (as restated)
	£000	£000
Corporation tax recoverable	**44**	573
Amounts owed by subsidiary undertakings	**7,649**	4,061
Other debtors	**119**	666
Prepayments and accrued income	**68**	34
Deferred tax asset	**4**	5
	7,884	5,339

Other debtors includes £nil (*2001: £366,000*) due after more than one year.

The elements of deferred tax are as follows:

	2002	2001 (as restated)
	£000	£000
Accelerated capital allowances	**4**	5

	2002
	£000
At beginning of the year (as restated)	**5**
Charge to the profit and loss account	**(1)**
At end of the year	**4**

The directors have adopted FRS19 'Deferred Taxation' for the first time in these accounts. In accordance with FRS3, a prior year adjustment has been made to restate the amounts included in the balance sheets of previous years for deferred taxation. The deferred tax asset in the 2001 accounts has been increased by £5,000 and the deferred tax credit for that year has been increased by £5,000. The adoption of the standard increased the current year deferred tax charge by £1,000.

11 Creditors: amounts falling due within one year

	2002	2001
	£000	£000
Bank overdraft	**724**	-
Hire purchase and finance leases	**-**	20
Amounts owed to parent company	**3,999**	2,588
Amounts owed to subsidiary undertakings	**4,023**	3,198
Other creditors	**5**	55
Accruals and deferred income	**257**	215
	9,008	6,076

Notes *(continued)*

12 *Creditors: amounts falling due after more than one year*

	2002 £000	2001 £000
Hire purchase and finance leases	-	14

The maturity of obligations under hire purchase and finance leases is as follows:

	2002 £000	2001 £000
Within one year	-	20
In the second to fifth years	-	14

13 Called up share capital

	2002 £000	2001 £000
Authorised		
56,000,000 ordinary shares of £0.25 each	**14,000**	14,000
Allotted, called up and fully paid		
40,701,789 ordinary shares of £0.25 each	**10,175**	10,175

14 Share premium and reserves

	Share premium account	**Capital redemption reserve £000**	**Profit and loss account (as restated) £000**
At beginning of year	631	709	1,121
Retained loss for the year	-	-	(2,654)
At end of year	**631**	**709**	**(1,533)**

Notes *(continued)*

15 Reconciliation of movement in shareholders' funds

	2002	2001 (as restated)
	£000	£000
Loss for the year	(2,654)	(4,730)
Dividends payable	-	-
Net reduction to shareholders' funds	(2,654)	(4,730)
Opening shareholders' funds (originally £12,631,000 before prior year adjustment of £5,000)	12,636	17,366
Closing shareholders' funds	9,982	12,636

16 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	2002		2001	
	Land and buildings	Other	Land and buildings	Other
	£000	£000	£000	£000
Operating leases which expire				
Within two to five years	-	-	35	17

17 Pension commitments

The company has a number of pension arrangements, all of which are now defined contribution schemes. The company has converted the residual defined benefit element of past schemes into paid up, fully funded policies or transferred cash equivalent value of those schemes into new schemes. The contributions to these schemes are provided for in the accounts of the year to which they relate. In all cases the assets are held separately from the company and the pension funds are independently managed. The total charge for the company was £57,000 *(2001: £54,000)*.

18 Contingent liabilities

Each group company is party to a group banking facility under which it has guaranteed the bank borrowings, performance bonds and guarantees of its fellow group companies. The total group drawings under the facility at 31 December 2002 were £3,996,000 (2001: £5,258,000), all of which related to the parent company and all subsidiary undertakings.

Bank borrowings are secured by way of a floating charge over the assets of the group.

19 Related party disclosures

Under the provisions of FRS8 "Related Party Disclosures" the company is exempt from disclosing the details of these transactions.

Notes *(continued)*

20 Post balance sheet events

Since the year end the Company has disposed of its two principal trading subsidiaries as set out below. These disposals complete the Avonside Group's withdrawal from sub contracting services.

* 12 August 2003 – Avonside Plumbing & Heating (Noth West) Limited (and all subsidiary companies)
* 17 September 2003 – Avonside Roofing Limited (and all subsidiary companies)

Total funds generated by the Company from these disposals, including the settlement of inter-company accounts outstanding as at the year end amounted to £10,449,000, of which £3,000,000 has been deferred and £520,000 has been satisfied by the transfer of freehold premises.

There will be no tax payable on these transactions.

21 Ultimate parent company

The company is a wholly owned subsidiary of Avonside Group Limited which is registered in England and Wales. Copies of the accounts of Avonside Group Limited can be obtained from Churchill House, Regent Road, Stoke on Trent, ST1 3RQ.