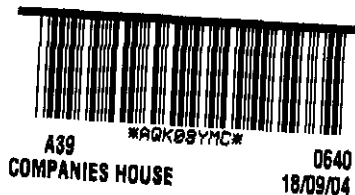


Avonside Group Holdings Limited

**Directors' report and financial
statements**

Registered number 2666866

31 December 2003



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Directors' report

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

Principal activities

The company is a holding company.

The principal activity of the group was the provision of services to housebuilders in the United Kingdom. However, during the course of the year, the company was withdrawn from its involvement in sub contract services to housebuilders following the disposals detailed in note 9 to these accounts.

Business review

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

Proposed dividend

An interim dividend of £nil (2002: £nil) was paid during the year. The directors recommend the payment of a final dividend of £nil (2002: £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 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.

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.

Directors' report (continued)

Approval

The report of the directors was approved by the Board on 10th August 2004 and signed on its behalf by:


JL Tallo
Company secretary

Churchill House
47 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 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 16.

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 3, 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 2003 and of its profit 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

10th August 2004

Profit and loss account
for the year ended 31 December 2003

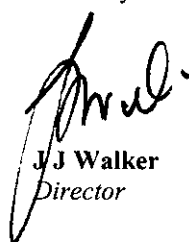
| | <i>Note</i> | 2003 £000 | 2002 £000 |
|---|-------------|----------------------------|----------------|
| Staff costs | 3 | (533) | (788) |
| Depreciation | | (4) | (32) |
| Other operating charges (excluding exceptional items) | | (18) | (614) |
| Exceptional items | | (61) | (1,728) |
| Total operating charges | | (79) | (2,342) |
| Management income | | 12 | 467 |
| Operating loss | 2 | (604) | (2,695) |
| Profit/(loss) on disposal of subsidiary undertakings | 18 | 4,203 | - |
| Income from shares in Group undertakings | | 274 | - |
| Interest receivable | 5 | 258 | 269 |
| Amounts written off investments | 9 | (56) | - |
| Interest payable | 6 | (59) | (129) |
| Profit/(loss) on ordinary activities before taxation | | 4,016 | (2,555) |
| Tax on profit/(loss) on ordinary activities | 7 | 435 | (99) |
| Retained profit/(loss) for the year | 14 | 4,451 | (2,654) |

The notes on pages 8 to 16 form part of these accounts.

Balance sheet
at 31 December 2003

| | Note | 2003 £000 | 2002 £000 | 2002 £000 |
|---|------|--------------|--------------|--------------|
| Fixed assets | | | | |
| Tangible assets | 8 | 377 | 437 | |
| Investments | 9 | 11,184 | 10,669 | |
| | | | 11,561 | 11,106 |
| Current assets | | | | |
| Debtors | 10 | 6,016 | 7,884 | |
| Cash at bank and in hand | | 581 | - | |
| | | 6,597 | 7,884 | |
| Creditors: amounts falling due within one year | 11 | (3,725) | (9,008) | |
| Net current assets/(liabilities) | | | 2,872 | (1,124) |
| Net assets | | | 14,433 | 9,982 |
| Capital and reserves | | | | |
| Called up share capital | 12 | 10,175 | 10,175 | |
| Share premium account | 13 | 631 | 631 | |
| Capital redemption reserve | 13 | 709 | 709 | |
| Profit and loss account | 13 | 2,918 | (1,533) | |
| Equity shareholders' funds | 14 | 14,433 | 9,982 | |

These financial statements were approved by the board of directors on *10th August* 2004 and were signed on its behalf by:


J J Walker
Director

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

| | 2003 £000 | 2002 £000 |
|---|--------------|----------------|
| Profit/(loss) for the financial year | 4,451 | (2,654) |
| Total recognised gains/(losses) relating to the financial year | 4,451 | (2,654) |
| Prior year adjustment | - | 5 |
| Total recognised gains/(losses) since the last annual report | 4,451 | (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.

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% |
| 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

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. 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: | 2003 £000 | 2002 £000 |
| Operating lease rentals | - | 52 |
| Auditors' remuneration – Audit services | 64 | 9 |
| Auditors' remuneration – Non- audit services | 58 | 109 |
| Depreciation and other amounts written off tangible fixed assets | 4 | 32 |
| Exceptional items | 61 | 1,728 |
| (Profit) on disposal of fixed assets | (327) | (7) |
| Amounts written off investments (see note 9) | 56 | - |
| | <hr/> | <hr/> |

The exceptional items in the year comprise:-

| | | |
|--|--------------|--------------|
| | 2003 £000 | 2002 £000 |
| Onerous lease costs | (13) | 164 |
| Intercompany account written off (Avonside Windows Systems Limited) | - | 1,370 |
| Payment of guarantee (Novaside Timber Systems Limited in receivership) | 74 | - |
| Amounts provided against loan to Avonside Timber Frame | - | 194 |
| | <hr/> | <hr/> |
| | 61 | 1,728 |
| | <hr/> | <hr/> |

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:

| | | |
|-----------------------------------|------------|------------|
| | 2003 No | 2002 No |
| Sales, finance and administration | 2 | 10 |
| Directors | 1 | 5 |
| | <hr/> | <hr/> |
| | 3 | 15 |
| | <hr/> | <hr/> |

Notes (continued)

3 Staff numbers and costs (continued)

| | 2003 £000 | 2002 £000 |
|-----------------------|--------------|--------------|
| Wages and salaries | 471 | 656 |
| Social security costs | 43 | 75 |
| Pension costs | 19 | 57 |
| | <u>533</u> | <u>788</u> |

4 Remuneration of directors

| | 2003 £000 | 2002 £000 |
|---|--------------|--------------|
| <i>Directors' remuneration was as follows:</i> | | |
| Basic salary and fees | 395 | 389 |
| Performance related bonus | - | 38 |
| Pension contributions to defined contribution schemes | 17 | 38 |
| | <u>412</u> | <u>465</u> |

| | 2003 £000 | 2002 £000 |
|--|--------------|--------------|
| <i>The remuneration of the highest paid executive director was as follows:</i> | | |
| Basic salary | 206 | 149 |
| Pension | 9 | 15 |
| | <u>215</u> | <u>164</u> |

Retirement benefits are accruing to one director (2002: 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

| | 2003 £000 | 2002 £000 |
|--------------------------|--------------|--------------|
| Bank interest receivable | 218 | 269 |
| On corporation tax paid | 40 | - |
| | <u>258</u> | <u>269</u> |

Notes (continued)

6 Interest payable and similar charges

| | 2003 £000 | 2002 £000 |
|-----------------------------|--------------|--------------|
| On bank loan and overdrafts | 59 | 127 |
| Hire purchase interest | - | 2 |
| | <u>59</u> | <u>129</u> |

7 Taxation

| | 2003 £000 | 2002 £000 |
|---|--------------|--------------|
| <i>UK Corporation tax</i> | | |
| Current tax on income for the period | (43) | (44) |
| Adjustment in respect of prior periods | (387) | 142 |
| | <u>(430)</u> | <u>98</u> |
| Total current tax | (430) | 98 |
| Origination/reversal of timing differences | (5) | 1 |
| | <u>(5)</u> | <u>1</u> |
| Total deferred tax (see note 10) | (5) | 1 |
| | <u>(435)</u> | <u>99</u> |
| Tax on profit/(loss) on ordinary activities | (435) | 99 |

Factors affecting the tax charge for the current period

The current tax charge for the year is lower (2002: higher) than the standard rate of corporation tax in the UK (30%, 2002: 30%). The differences are explained below.

| | 2003 £000 | 2002 £000 |
|---|--------------|--------------|
| <i>Current tax reconciliation</i> | | |
| Profit/(loss) on ordinary activities before tax | 4,016 | (2,555) |
| | <u>1,205</u> | <u>(766)</u> |
| Current tax at 30% (2002: 30%) | 1,205 | (766) |
| <i>Effects of:</i> | | |
| Non taxable income | (82) | - |
| Expenses not deductible for tax purposes | (1,333) | 477 |
| Capital allowances for period in excess of depreciation | (1) | (1) |
| Tax loss carried forward | 154 | 246 |
| Group relief surrendered for nil consideration | 14 | - |
| Prior year adjustment | (387) | 142 |
| | <u>(430)</u> | <u>98</u> |
| Current tax (credit)/charge | (430) | 98 |

Notes (continued)

8 Tangible fixed assets

| Group | Freehold land and buildings £000 | Fixture and fittings £000 | Total £000 |
|--------------------------|---|---------------------------------|---------------|
| Cost | | | |
| At 1 January 2003 | 497 | 54 | 551 |
| Additions | - | 1 | 1 |
| Disposals | (412) | (1) | (413) |
| Group transfers in/(out) | 362 | (8) | 354 |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2003 | 447 | 46 | 493 |
| | <hr/> | <hr/> | <hr/> |
| Depreciation | | | |
| At 1 January 2003 | 70 | 44 | 114 |
| Charged for year | - | 4 | 4 |
| On disposals | 89 | - | 89 |
| Group transfers in/(out) | (89) | (2) | (91) |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2003 | 70 | 46 | 116 |
| | <hr/> | <hr/> | <hr/> |
| Net book value | | | |
| At 31 December 2003 | 377 | - | 377 |
| | <hr/> | <hr/> | <hr/> |
| At 1 January 2003 | 427 | 10 | 437 |
| | <hr/> | <hr/> | <hr/> |

Notes (continued)

9 Fixed assets investments

| | Shares in group undertakings £000 | Other investments £000 | Total £000 |
|-----------------------|---|------------------------------|---------------|
| Cost | | | |
| At beginning of year | 34,365 | 200 | 34,565 |
| Disposals | (12,564) | - | (12,564) |
| | <hr/> | <hr/> | <hr/> |
| At end of year | 21,801 | 200 | 22,001 |
| | <hr/> | <hr/> | <hr/> |
| Provisions | | | |
| At beginning of year | 23,696 | 200 | 23,896 |
| Provided in the year | 250 | - | 250 |
| Disposals | (13,329) | - | (13,329) |
| | <hr/> | <hr/> | <hr/> |
| At end of year | 10,617 | 200 | 10,817 |
| | <hr/> | <hr/> | <hr/> |
| Net book value | | | |
| At 31 December 2003 | 11,184 | - | 11,184 |
| | <hr/> | <hr/> | <hr/> |
| At 1 January 2003 | 10,669 | - | 10,669 |
| | <hr/> | <hr/> | <hr/> |

| Company | Country of incorporation | Principal activity | Interest in ordinary shares % |
|-----------------------------|-----------------------------|----------------------|-------------------------------------|
| Avonside Houses Limited | England | Dormant | 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 were disposed of during the year (see note 18).

| | 2003 £000 | 2002 £000 |
|--|--------------|--------------|
| Amounts written off during the year | | |
| Loan due from Avonside Timber Frame (reinstated loan amount in 2003) | 194 | (194) |
| Investment in Joshua & Tom Taylor Limited | (250) | - |
| | <hr/> | <hr/> |
| | (56) | (194) |
| | <hr/> | <hr/> |

Notes (continued)

10 Debtors

| | 2003 £000 | 2002 £000 |
|---|--------------|--------------|
| Corporation tax recoverable | 189 | 44 |
| Amounts owed by parent company | 5,028 | - |
| Amounts owed by subsidiary undertakings | 691 | 7,649 |
| Other debtors | 99 | 119 |
| Prepayments and accrued income | - | 68 |
| Deferred tax asset | 9 | 4 |
| | <u>6,016</u> | <u>7,884</u> |

Other debtors include £nil (2002: £nil) due after more than one year.

Deferred tax

| | 2003 £000 | 2002 £000 |
|--|--------------|--------------|
| At the beginning of the year | 4 | 5 |
| Credit/(charge) to the profit and loss account | 5 | (1) |
| | <u>9</u> | <u>4</u> |

The elements of deferred tax are as follows:

| | 2003 £000 | 2002 £000 |
|--------------------------------|--------------|--------------|
| Accelerated capital allowances | <u>9</u> | <u>4</u> |

11 Creditors: amounts falling due within one year

| | 2003 £000 | 2002 £000 |
|---|--------------|--------------|
| Bank overdraft | - | 724 |
| Amounts owed to parent company | - | 3,999 |
| Amounts owed to subsidiary undertakings | 3,451 | 4,023 |
| Other creditors | 50 | 5 |
| Accruals and deferred income | 224 | 257 |
| | <u>3,725</u> | <u>9,008</u> |

Notes (continued)

12 Called up share capital

| | 2003 £000 | 2002 £000 |
|---|--------------|--------------|
| <i>Authorised</i> | | |
| 56,000,000 ordinary shares of £0.25 each | 14,000 | 14,000 |
| | <hr/> | <hr/> |
| <i>Allotted, called up and fully paid</i> | | |
| 40,701,789 ordinary shares of £0.25 each | 10,175 | 10,175 |
| | <hr/> | <hr/> |

13 Share premium and reserves

| | Share premium account | Capital redemption reserve £000 | Profit and loss Account £000 |
|------------------------------|--------------------------|--|------------------------------------|
| At beginning of year | 631 | 709 | (1,533) |
| Retained profit for the year | - | - | 4,451 |
| | <hr/> | <hr/> | <hr/> |
| At end of year | 631 | 709 | 2,918 |
| | <hr/> | <hr/> | <hr/> |

14 Reconciliation of movements in shareholders' funds

| | 2003 £000 | 2002 £000 |
|---|--------------|--------------|
| Profit/(loss) for the year | 4,451 | (2,654) |
| Dividends payable | - | - |
| | <hr/> | <hr/> |
| Net increase/(reduction) to shareholders' funds | 4,451 | (2,654) |
| Opening shareholders' funds | 9,982 | 12,636 |
| | <hr/> | <hr/> |
| Closing shareholders' funds | 14,433 | 9,982 |
| | <hr/> | <hr/> |

15 Commitments

There are no annual commitments under non-cancellable operating leases.

16 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 group and the pension funds are independently managed. The total charge for the company was £19,000 (2002: £57,000).

Notes (continued)

17 Related party disclosures

The company has undertaken transactions with fellow subsidiaries of Avonside Group Limited.

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

18 Profit/(loss) on disposal of subsidiary undertakings

| | Total £000 | Avonside Plumbing & Heating (North West) Limited | Avonside Roofing Limited |
|-------------------------------------|---------------|--|-----------------------------|
| Date of disposal | - | 12 August 2003 | 17 September 2003 |
| Cost of investment | (12,564) | (9,961) | (2,603) |
| Less: provisions | 13,329 | 10,726 | 2,603 |
| | <hr/> 765 | <hr/> 765 | <hr/> - |
| Proceeds less costs | 4,531 | 4,618 | (87) |
| Intercompany account written off | (1,093) | - | (1,093) |
| | <hr/> 4,203 | <hr/> 5,383 | <hr/> (1,180) |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

19 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, 47 Regent Road, Stoke on Trent, ST1 3RQ.