Avocet Hardware Limited

Directors' report and financial statements

Registered number 3288247

31 December 2007

Contents

Directors and advisors

Directors
I G Jones
M C Tuck (appointed 1 November 2007)
G Balls (resigned 1 November 2007)
E W Goold (resigned 30 June 2007)
J B McCarthy (resigned 1 November 2007)
T Voss (resigned 1 November 2007)

Secretary
J Bignall (resigned 1 November 2007)
I G Jones (appointed 1 November 2007)

Registered Office
Brookfoot Mills
Elland Road
Brighouse
West Yorkshire
HD6 2RW

Registered Auditors
PricewaterhouseCoopers LLLP (resigned 1 November 2007)
Benson House
33 Wellington Street
Leeds
LS1 4JP

KPMG LLP (Appointed 1 November 2007)
1 The Embankment
Neville Street
Leeds
LS1 4DW

Solicitors
Shoosmiths
7th Floor
125 Colemore Row
Birmingham
B3 3SH

Bankers
HSBC plc
Yorkshire Corporate Banking Centre
4th Floor
City Point
29 King Street
Leeds
LS1 2HL

Landsbanki Commercial Finance
Peter House
Oxford Street
Manchester
M1 5AN

Directors' report

The dırectors present theır report and audıted financıal statements of Avocet Hardware Lımıted ("the company") for the year ended 31 December 2007

Results and dıvıdends

The results for the year are set out ın the profit and loss account on page 8 No ınterım dıvıdend was paıd durıng the year (2006 £nıl) No final dıvıdend ıs proposed (2006 £nıl)

The prıncıpal actıvıtıes of the company can be summarısed as follows

- The desıgn, development, manufacture, procurement and dıstrıbutıon of door and wındow hardware
- The procurement and dıstrıbutıon of screws, naıls, bolts and general ıronmongery products

These actıvıtıes are supported by two manufacturıng busınesses ın Chına and a sourcıng office ın Taıwan

On 1 November 2007, the company was sold by Masco Corporatıon (ıts ultımate parent entıty) to Avocet Holdıngs Lımıted (a company formed by a management-led team for the purpose of acquırıng the busıness) The acquısıtıon reflects management's confidence that the busıness ıs well placed to delıver sustaınable and profitable sales growth As a result of the acquısıtıon, the busıness has a sıgnıficantly ımproved balance sheet wıth net assets of £3,514,000 at the end of the year (2006 £(14,344,000) net lıabılıtıes) Further detaıls of the acquısıtıon can be found ın the financıal statements of Avocet Holdıngs Lımıted whıch are avaılable from Companıes House

The results for the company show an operatıng profit after goodwıll and amortısatıon and ımpaırment of £1,430,000 (2006 loss £6,416,000) for the year generated by sales of £40,389,000 (2006 £34,070,000) The results ınclude goodwıll amortısatıon and ımpaırment charges of nıl (2006 £6,960,000)

The ımproved financıal performance durıng the year was drıven by sıgnıficant sales growth (up 20% on 2006) reflectıng ıncreasıng customer satısfactıon wıth new product development and ınnovatıon, assured qualıty, outstandıng levels of servıce delıvery, and customer care Durıng thıs perıod, several sıgnıficant contracts were secured wıth the major UK DIY retaılers whıch provıde longer term confidence ın the qualıty of the order book and further enhance the company's reputatıon for outstandıng performance

Durıng the year, the company faced a number of sıgnıficant cost challenges ıncludıng ıncreased raw materıal costs, together wıth substantıal changes to export regulatıons ın Chına (effectıvely addıng 8% to costs of all Chınese sourced product from 1 July 2007) The weakness of the US dollar and sterlıng relatıve to the Chınese Yuan also contrıbuted to a year of sıgnıficant cost pressure

Business environment and strategy

The UK door and wındow hardware market remaıns dıfficult reflectıng lower UK consumer spendıng on conservatorıes and wındow replacement Hıgher ınterest rates (drıven by ınflatıonary pressure ın the UK economy) have contrıbuted to a slowdown ın the UK housıng market whıch ın turn has had an adverse ımpact on sector actıvıty

The outlook ın the door and wındow hardware sector ın the near term contınues to look dıfficult wıth the hıgh emphasıs on competıtıve prıcıng to maıntaın and buıld market share The ımportance of value engıneerıng to reduce underlyıng costs and hence ımprove competıtıveness remaıns a prıorıty

The DIY multıple sector also remaıns dıfficult wıth consumer spendıng ın the major retaılers down on prıor year and consumer spendıng on DIY ımprovements has reduced The outlook ın the sector ın the near term suggests these dıfficult tradıng condıtıons wıll contınue wıth a focus on reducıng supply costs and ınternal efficıencıes to grow margın performance

Research and development

Research and ınvestment ın new product development remaıns a busıness prıorıty The dırectors regard the ınvestment ın research and development as ıntegral to the contınuıng success of the busıness and ensurıng we provıde our customers wıth new and ınnovatıve hıgh qualıty products

Future outlook

The external commercıal envıronment ıs expected to remaın competıtıve ın 2008 wıth sales growth expected to be drıven by the launch of new products and outstandıng levels of customer servıce

Directors' report *(continued)*

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks The key business risks affecting the company are set out below

- Increasing competition in both sectors
- Raw material cost increases (impacting the cost of production in China)
- Foreign currency exchange rates (with the majority of the company's purchases being denominated in US dollars)

Risks are formally reviewed by the board and appropriate processes put in place to monitor and mitigate them If more than one event occurs, it is possible that the overall effect of such events would compound the possible adverse effects on the company

Key performance indicators (KPI's)

Given the straight forward nature of the business the company's directors are of the opinion that analysis using KPI's is not necessary for an understanding of the development, performance or position of the company

Financial risk management

The company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the company The company does not use derivative financial instructions to manage interest rate costs The company does use forward contracts to manage near term foreign exchange risks relating to working capital No hedge accounting is applied

Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board The policies set by the Board of directors are implemented by the company's financial department

Price risk

The business is subject to price risk in relation to raw material purchases for the manufacturing operations in China and the sourcing activities in Taiwan Given the size of the company's operations, the costs of further managing exposure to commodity price risk exceed any potential benefits The directors will revisit the appropriateness of this policy should the company's operations change in size or nature

Credit risk

The company has implemented policies that require appropriate credit checks on potential customers before sales are made The amount of exposure to any individual counterparty is subject to a limit, which is reassessed on a regular basis

Liquidity risk

The company participates in a Group cash pooling arrangement which is used to maintain the appropriate liquidity that the company requires for its day to day operations

Directors' report *(continued)*

Directors and their interests

The directors who held office during the year were as follows

I Jones
Michael Tuck (appointed 1 November 2007)
G Balls (resigned 1 November 2007)
EW Goold (resigned 30 June 2007)
JB McCarthy (resigned 1 November 2007)
T Voss (resigned 1 November 2007)

The immediate and ultimate parent undertaking is Avocet Holdings Limited, which is a company incorporated in the United Kingdom As permitted, the register required to be kept by Section 325 of the Companies Act 1985 does not contain details of interests of directors who are also directors of the company's immediate parent undertaking

The company is also exempt from disclosure of directors' interests in the shares of the ultimate parent undertaking under SI 1985 No 802

Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned In the event of members of staff being disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged It is the policy of the company that the training, career development and promotion of a disabled person, should, as far as possible, be identical to that of a person who does not suffer from a disability

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the company as a whole Communication with all employees continues through internal newsletters, briefing groups and electronic communications

Policy and practice on payment of creditors

It is the company's policy to agree terms of settlement with its suppliers that are appropriate for the markets in which they operate, and to abide by such terms where suppliers have met their obligations Trade creditors at the year end presented 61 days of purchases *(2006 63)*

Charitable donations

During the year the company made charitable donations of £1,420 *(2006 £nil)*

Auditors

Following the business acquisition, Pricewaterhouse Coopers resigned as auditors effective 1 November 2007 and KPMG LLP were appointed

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company and for the directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting

By order of the board

Ian Jones
Secretary

Brookfoot Mills
Elland Road
Brighouse
HD6 2RW
20 May 2008

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare company financial statements in accordance with UK Accounting Standards

The company financial statements are required by law to give a true and fair view of the state of the parent company and of the profit or loss for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments 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 group and the parent company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities

The directors' are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

KPMG

KPMG LLP
1 The Embankment
Neville Street
Leeds
LS1 4DW
United Kingdom

Independent auditors' report to the members of Avocet Hardware Limited

We have audited the financial statements of Avocet Hardware Limited for the year ended 31 December 2007 which comprise the Profit and Loss Account, Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 5

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 other transactions 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 International Standards on Auditing (UK and Ireland) 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 judgments 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 Avocet Hardware Limited *(continued)*

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

23 May 2008

Profit and loss account
for the year ended 31 December 2007

	Note	2007 £000	2006 £000
Turnover	2	**40,389**	34,070
Cost of sales		**(32,100)**	(27,477)
Gross profit		**8,289**	6,593
Distribution costs		**(1,296)**	(1,221)
Administration expenses		**(5,563)**	(11,788)
Operating profit/(loss) (after goodwill and impairment charge)	4	**1,430**	(6,416)
Goodwill amortisation and impairment charge	4	**-**	(6,960)
Operating profit before goodwill amortisation and impairment charge		**1,430**	544
Other interest receivable and similar income	7	**22**	17
Interest payable and similar charges	7	**(2,029)**	(1,707)
Loss on ordinary activities before tax		**(577)**	(8,106)
Tax on loss on ordinary activities	8	**194**	508
Loss on ordinary activities after taxation		**(383)**	(7,598)
Loss for the financial year	18	**(383)**	(7,598)

All items dealt with in arriving at operating profit above relate to continuing operations

There is no difference between the loss on ordinary activities before taxation and the loss sustained for the year stated above and their historical cost equivalents

Balance sheet
At 31 December 2007

	Note	2007 £000	2006 £000
Fixed assets			
Intangible assets	*9*	-	-
Tangible assets	*10*	6,059	6,586
Investments	*11*	3,653	3,653
		9,712	10,239
Current assets			
Stocks	*12*	10,570	8,262
Debtors	*13*	10,764	6,475
Cash at bank and in hand		132	537
		21,466	15,274
Creditors: amounts falling due within one year	*14*	(11,623)	(11,197)
Net current assets		9,843	4,077
Total assets less current liabilities		19,555	14,316
Creditors: amounts falling due after more than one year	*15*	(16,112)	(28,114)
Deferred tax asset/(liability)	*16*	71	(194)
Net assets/(liabilities) excluding pension liabilities		3,514	(13,992)
Pension liabilities	*24*	-	(352)
Net assets/(liabilities) including pension liabilities		3,514	(14,344)
Capital and reserves			
Called up share capital	*17*	68,241	50,000
Profit and loss account	*18*	(64,727)	(64,344)
Total equity shareholders' funds/(deficit)	*19*	3,514	(14,344)
		3,514	(14,344)

These financial statements were approved by the board of directors on 20 May 2008 and were signed on its behalf by

Director

Statement of total recognised gains and losses
for the year ended 31 December 2007

	Note	2007 £000	2006 £000
Loss for the financial year		**(383)**	(7,598)
Actual gain/(loss) recognised in pension schemes	24	-	106
Movement on deferred tax relating to pension	24	-	(32)
Total recognised gains and losses relating to financial year		**(383)**	(7,524)
Prior year adjustment		-	(34)
		(383)	(7,558)

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 standards and under the historical cost accounting rules

Before the acquisition of the company by Avocet Holdings Limited on 1 November 2007 (see note 25), a consolidation was prepared at the Avocet Hardware Limited entity level The consolidation is now performed within Avocet Holdings Limited, copies of which are available from Companies House

Turnover

Turnover represents the invoiced value of goods and services supplied, excluding value added tax, trade discounts and rebates, recognised when invoiced and despatched

Research and development

Research and development expenditure is written off in the profit and loss account in the period in which it is incurred

Leases

Leasing agreements and hire purchase contracts which transfer to the company substantially all the benefits and risks of ownership of an asset ("financial leases") are treated as if the asset had been purchased outright Assets held under such agreements are included in fixed assets and the capital element of commitments is shown as obligations under finance leases Payments under such agreements are treated as consisting of capital and interest elements The interest element is charged to the profit and loss account over the primary lease period in proportion to the reducing capital element outstanding Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets

All other leases are treated as operating leases, the costs of which are charged on a straight line basis over the lease term

Foreign currencies

Assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date or at the agreed contractual rate Transactions in foreign currency are translated at the rate ruling at the date of the transaction All differences on exchange are taken to the profit and loss account

Acquisitions and goodwill

On the acquisition of a business, fair values are attributed to the company's share of net tangible assets Where the cost of acquisition exceeds the value attributable to such net assets, the difference is treated as purchased goodwill and is amortised in equal instalments over the expected useful life up to a maximum period of 20 years

Notes *(continued)*

1 Accounting policies *(continued)*

Fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual value, on a straight line basis over their estimated economic lives The estimated economic lives used for this purpose are

Freehold buildings	-	40 years
Leasehold improvements	-	shorter of lease term and 3 years
Plant and machinery	-	10 years
Motor vehicles	-	3 years

Fixed asset investments

Fixed asset investments, comprising investment in subsidiary companies, are stated at cost less any provisions for impairment Where an event has occurred that gives rise to doubt about the recovery of the carrying value an impairment assessment is made The impairment is calculated by comparing the investments carrying value to the recoverable amount as required by FRS 11 "Impairment of fixed assets and goodwill" The recoverable amount is taken to be the higher of realisable value and value in use Value in use is determined by reference to the expected future cash flows of the business, discounted at a risk adjusted weighted cost of capital

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value Cost is determined on a first in first out basis and includes transport and handling costs, less trade discounts In the case of manufactured products, cost includes all direct expenditure and an appropriate proportion of production overheads based on the normal level of activity Where necessary, provision is made for obsolete, slow-moving and defective stocks based upon a line by line review of individual stock lines held

Pensions

Before the acquisition (see note 25), the company offered a defined benefit pension scheme which is now closed to new members Full valuation of the defined benefit scheme was performed every three years, using the Defined Accrued Benefit method Under the defined benefit scheme any current and past service costs were charged to operating profit and interest costs and expected returns on assets to financing costs over income Actuarial gains and losses arising from new valuations and from updating the latest actuarial valuation to reflect conditions at the balance sheet were recognised in the statement of total recognised gains and losses

Since the acquisition the defined benefit liability has been credited to the profit and loss account (see note 24)

The company currently offers a number of defined contribution pension schemes The pension expense for defined contribution schemes represents amounts payable in the year

The company provides no other post-retirement benefits to its employees

Cash settled share based incentive schemes

Notional dividends

Until the date of acquisition (see note 25), notional dividends on unvested Phantom Stock Awards were measured at the intrinsic value of dividends declared by Masco Corporation (previous parent undertaking) and converted to Pounds Sterling at the relevant spot rate on the date declared and recognised as an expense in the period in which the dividends were declared The related liability was subsequently measured and adjusted at the end of each period until the notional dividend had been fully paid to employees or the right to receive notional dividend expired National insurance contributions accrued at the statutory rate on the total liability at the end of each reporting period

Since leaving the Masco Group, any accrued liabilities has been credited to the profit and loss account (see note 20)

Notes *(contınued)*

1 Accounting policies *(contınued)*

Deferred tax

Deferred tax ıs recognısed ın respect of all tımıng dıfferences that have orıgınated but not reversed at the balance sheet date, where transactıons or events that result ın an oblıgatıon to pay more tax ın the future or a rıght to pay less tax ın the future have occurred at the balance sheet date

A net deferred tax asset ıs recognısed only when, on the basıs of all avaılable evıdence, ıf can be regarded as more lıkely than not that there wıll be suıtable taxable profits agaınst whıch to recover carrıed forward tax losses and/or from whıch the future reversal of underlyıng tımıng dıfferences can be deducted

Deferred tax ıs measured at the average rate that are expected to apply ın the perıods ın whıch the tımıng dıfferences are expected to reverse based on tax rates and laws that have been enacted or substantıvely enacted by the balance sheet date Deferred tax ıs measured on a non-dıscounted basıs

Classification of financial instruments issued by the company

Followıng the adoptıon of FRS 25, financıal ınstruments ıssued by the company are treated as equıty (ı e formıng part of shareholders' funds) only to the extent that they meet the followıng two condıtıons

a) they ınclude no contractual oblıgatıons upon the company to delıver cash or other financıal assets or to exchange financıal assets or financıal lıabılıtıes wıth another party under condıtıons that are potentıally unfavourable to the company, and

b) where the ınstrument wıll or may be settled ın the company's own equıty ınstruments, ıt ıs eıther a non-derıvatıve that ıncludes no oblıgatıon to delıver a varıable number of the company's own equıty ınstruments or ıs a derıvatıve that wıll be settled by the company's exchangıng a fixed amount of cash or other financıal assets for a fixed number of ıts own equıty ınstruments

To the extent that thıs definıtıon ıs not met, the proceeds of ıssue are classıfied as a financıal lıabılıty Where the ınstrument so classıfied takes the legal form of the company's own shares, the amounts presented ın the financıal statement for called up share capıtal and share premıum exclude amounts ın relatıon to those shares

Fınance payments assocıated wıth financıal lıabılıtıes are dealt wıth as part of ınterest payable and sımılar charges Fınance payments assocıated wıth financıal ınstruments are classıfied as part of shareholders' funds (see dıvıdends polıcy), are dealt wıth as appropriatıons ın the reconcılıatıon of movements ın shareholders' funds

Dıvıdends on shares presented wıthin shareholders' funds

Dıvıdends unpaıd at the balance sheet date are only recognısed as a lıabılıty at that date to the extent that they are appropriately authorısed and are no longer at the dıscretıon of the company Unpaıd dıvıdends that do not meet these crıterıa are dısclosed ın the notes to the financıal statements

2 Segmental reportıng

The company's actıvıtıes consıst of the manufacturıng and sale of wındow & door hardware, screws, naıls and home hardware ın the Unıted Kıngdom wıth turnover and profit on ordınary actıvıtıes for the year arısıng entırely from the company's prıncıpal actıvıty

The geographıcal analysıs of turnover ıs

	2007 £000	2006 £000
Turnover		
Unıted Kıngdom	**40,311**	33,954
Rest of Europe	**75**	91
Rest of the World	**3**	25
	40,389	34,070

Notes *(continued)*

3 Cash flow statement

A cash flow statement is not presented since Avocet Holdings Limited, the ultimate parent company has prepared a consolidated cash flow statement, including the cash flow of this company such that the company has taken advantage of the exemption from preparing a cash flow statement in accordance with Financial Reporting Standard No 1 (revised)

4 Operating profit/(loss)

	2007 £000	2006 £000
Operating profit/(loss) is stated after charging/(crediting)		
Depreciation of tangible fixed assets – owned assets	**708**	557
Amortisation of goodwill (note 9)	**-**	497
Impairment of goodwill (note 9)	**-**	6,463
Operating lease charges		
- property	**18**	32
- plant and machinery	**95**	125
- other	**129**	125
Loss on disposal of fixed assets	**-**	3
Pension settlement (note 24)	**(352)**	-
Share based payment (note 22)	**(40)**	-
Exchange rate losses/(gains)	**290**	(339)

During the year the company obtained the following services from the group's auditors at costs as detailed below

	2007 £000	2006 £000
Audit services		
- Audit services pursuant to legislation	**69**	78
- Tax compliance services	**20**	26
	89	104

Notes *(continued)*

5 Directors' emoluments

	2007 £000	2006 £000
Aggregate emoluments (including benefits in kind)	**285**	407
Company pension contributions to money purchase scheme	**36**	45
Compensation for loss of office	**137**	60
	458	512

No retirement benefits are accruing to directors under defined benefit schemes

The services of Graham Balls, Edward Goold, Lau Fransden and Thomas Voss were of a non executive nature and their emoluments were deemed to be wholly attributable to their services to the company paying their emoluments Accordingly, the details above do not include emoluments in respect of the aforementioned directors

Highest paid director	2007 £000	2006 £000
Total amount of emoluments	**125**	147
Company pension contribution to money purchase schemes	**19**	17
	144	164

6 Staff numbers and costs

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

	Number of employees 2007	2006
Production	**120**	130
Selling and distribution	**46**	51
Administration	**62**	62
	228	243

Staff costs during the year (including directors) were as follows

	2007 £000	2006 £000
Wages and salaries	**4,341**	4,644
Social security costs	**445**	411
Other pension costs	**(197)**	122
	4,589	5,177

Notes *(continued)*

7 Interest receivable and similar income

	2007	2006
	£000	£000
Bank interest	**15**	-
Other interest receivable	**7**	17
	22	17

	2007	2006
	£000	£000
Interest payable on bank loans and overdrafts	**281**	35
Interest on parent company loans	**1,748**	1,653
Net interest charge on pension scheme	**-**	19
	2,029	1,707

8 Taxation

Analysis of charge in year

	2007	2006
	£000	£000
Current taxation		
UK corporation tax at 30% *(2006 30%)*	**67**	74
Adjustments in respect of prior year	**4**	(984)
Total current tax	**71**	(910)
Deferred tax		
Origination and reversal of timing differences	**(31)**	23
Adjustments in respect of prior years	**(234)**	379
Total deferred tax	**(265)**	402
Tax on loss on ordinary activities	**(194)**	(508)

The tax credit for the year is higher (2006 lower) than the standard rate of corporation tax applying in the United Kingdom (30%)

Notes *(continued)*

8 Taxation (continued)

The differences are explained below

	2007 £000	2006 £000
Loss on ordinary activities before tax	**(577)**	(8,106)
Loss on ordinary activities multiplied by standard rate in UK 30% *(2006 30%)*	**(173)**	(2,431)
Effects of:		
Expenses not deductible for tax purposes	**232**	2,600
Accelerated capital allowances and other timing differences	**39**	(27)
Group relief received at no charge	**(31)**	(68)
Adjustments to tax charge in respect of previous year	**4**	(984)
Total current tax credit	**71**	(910)

9 Intangible fixed assets

	Purchased goodwill £000
Cost	
At 1 January 2007 and 31 December 2007	37,093
Amortisation	
At 1 January 2007	37,093
Charge for the year	-
Impairment	-
At 31 December 2007	37,093
Net book value	
At 31 December 2007	**-**
At 31 December 2006	-

Goodwill represents the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired Goodwill is amortised over 20 years, which is the period over which the directors estimate that the value of the underlying businesses acquired are expected to exceed the value of the underlying assets

In accordance with Financial Reporting Standard No 11 "Impairment of fixed assets and goodwill" the directors reviewed the carrying value in 2006 The directors compared the carrying value of goodwill to its recoverable amount measured by the value in use of the underlying trade and assets The review resulted in an impairment charge in the group of £nil *(2006 £6,463,000)* and in the company of £nil *(2006 £11,165,900)* being charged to the profit and loss account in the year, the carrying value being fully written down in 2006

Notes *(continued)*

10 Tangible fixed assets

	Freehold Land and buildings £000	Plant and machinery £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
Cost					
At 1 January 2007	5,934	2,756	909	15	9,614
Additions	-	150	31	-	181
At 31 December 2007	5,934	2,906	940	15	9,795
Depreciation					
At 1 January 2007	443	2,013	559	13	3,028
Charge for year	130	522	54	2	708
At 31 December 2007	573	2,535	613	15	3,736
Net book value					
At 31 December 2007	**5,361**	**371**	**327**	**-**	**6,059**
At 31 December 2006	5,491	743	350	2	6,586

Notes *(continued)*

11 Investments

	2007	2006
	£000	£000
Cost and net book value	**3,653**	3,653

Investments in subsidiary undertakings

Name of subsidiary undertakings	**Country of incorporation**	**Description of shares held**	**Proportion of nominal value of issued shares held**	**Principal business activities**
Owned by Avocet Hardware Limited				
Avocet Architectural Products Limited	England and Wales	Ordinary shares of 10p each	100%	Non-trading
Avocet Security Products Co Ltd (Suzhou)	Peoples Republic of China	Ordinary shares of RMB 1 each	51%	Manufacturing of security products, ironmongery and architectural products
Avocet Security Products (Hong Kong) Limited	Hong Kong	Ordinary shares of HK$1 each	100%	Non-trading
Owned by Avocet Architectural Products Limited				
Avocet Hardware (Taiwan) Limited	England and Wales	Ordinary shares of £1 each	100%	Procurement of architectural hardware and related products
Owned by Avocet Security Products (Hong Kong) Limited				
Avocet Security Products (Dong Guan) Limited	Peoples Republic of China	Ordinary shares of RMB 1 each	100%	Manufacturing of security products, ironmongery and architectural products

In addition, at 31 December 2007, Avocet Architectural Products Limited owned 100% of the ordinary shares of £1 each of WMS PVCu Hardware Limited, Merchant Hardware Limited, Wong Shi Limited and 100% of the ordinary shares of HK$10 each of Bonny Way Trading Limited All of these companies are dormant and are registered in England and Wales with the exception of Bonny Way Trading Limited which is registered in Hong Kong

During the year, the company sold First 4 Direct Limited and Masco Contractor Services Limited for a nominal amount to Masco Corporation Limited Both companies were dormant and were registered in England and Wales

Notes *(continued)*

12 Stocks

	2007 £000	2006 £000
Finished goods and goods for resale	**10,570**	8,262

13 Debtors

	2007 £000	2006 £000
Trade debtors	**8,897**	5,881
Amounts owed by group undertakings	**1,270**	286
Corporation tax receivable	**10**	-
Other debtors	**234**	72
Prepayments and accrued income	**353**	236
	10,764	6,475

14 Creditors: amounts falling due within one year

	2007 £000	2006 £000
Trade creditors	**3,205**	1,423
Bank loan	**1,599**	-
Amounts owed to parent company	**656**	5,673
Amounts owed to fellow group undertakings	**4,199**	2,749
Corporation tax payable	**-**	71
Other taxation and social security	**749**	599
Accruals and deferred income	**1,215**	682
	11,623	11,197

Notes *(continued)*

15 Creditors: amounts falling after more than one year

	2007 £000	2006 £000
Amounts owed to fellow group undertakings	2,500	28,087
Bank loans	13,612	-
Other creditors	-	27
	16,112	28,114

The amount owed to fellow group undertakings relates to an unsecured loan (on which no interest is charged) of £2,500,000 from Avocet Holdings Limited (2006 amounts owed relate to unsecured loans of £12,902,000 and £15,185,000 provided by Masco Corporation Limited These loans carried interest at a rate of 1% and 1 35% above LIBOR respectively These loans were repaid during the year as part of the acquisition)

Bank loans of £15,570,000 relate to a revolving credit and term loan facility The revolving credit facility represents a borrowing secured against the business's trade receivables and inventory with interest charged at 2% and 2 25% above LIBOR respectively The term loan facilities represent borrowings of £3,487,000 secured against property and a working capital loan of £2,500,000 The property loan is repayable over 10 years with interest charged at 2 50% above LIBOR The working capital loan is repayable over 2 years with interest charged at 4% above LIBOR

16 Deferred taxation

	2007 £000	2006 £000
Accelerated capital allowances	(71)	202
Short term timing differences	-	-
Deferred tax asset on Phantom shares	-	(8)
Deferred tax (asset)/liability	(71)	194

Excludes the deferred tax asset on the pension liability which is netted off the gross pension fund (note 24) The movement on deferred tax in the year is as follows

	£000
Deferred tax asset at 1 January 2007	194
Charge to the profit and loss account	(265)
Deferred tax liability at 31 December 2007	(71)

Notes *(continued)*

Factors that may affect future tax charges

A subsidiary of the company revalued its property to the acquisition of that company by the group No provision has been made for deferred tax on the gain on revaluation of that property to its market value Such tax would become payable only if the property was sold without it being possible to claim rollover relief The total amount unprovided in the group and company is £165,000 *(2006 £283,000)* At present it is not envisaged that any such tax will become payable in the foreseeable future

There is no additional unprovided deferred tax liability in either the group or the company in either year There is no unrecognised deferred tax asset in either group or the company in either year

A number of changes to the UK Corporation tax system were announced in March 2007 Budget Statement to be included in the Finance Acts 2007 and 2008 The Finance Act 2007 was enacted on the 19 July 2007 and the other changes are expected to be enacted in the 2008 Finance Act. The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements

17 Called up share capital

	2007
	£000
Authorised: 70,000,000 ordinary shares of £1 each	
Balance at start of period	50,000
Issued in the period	20,000
Balance at 31 December 2007	70,000
Allotted, issued and fully paid: 68,241,000 ordinary shares of £1 each	
Balance at start of period	50,000
Allotted in the period	18,241
Balance at 31 December 2007	68,241

During the year, the company increased the authorised share capital and issued 18,241,000 new ordinary shares at £1 each

18 Share premium and reserves

	2007	2006
	£000	£000
At beginning of year as previously reported	**(64,344)**	(56,786)
Prior year adjustment – FRS 20	-	(34)
At beginning of year as restated	**(64,344)**	(56,820)
Loss for the year	**(383)**	(7,598)
Actuarial gain recognised in pension schemes	-	106
Deferred tax arising on (gains)/losses in pension schemes	-	(32)
At end of year	**(64,727)**	(64,344)

Notes *(continued)*

18 Share premium and reserves (continued)

Of the company's reserves £550,000 *(2006 £550,000)* is not considered to be realised or distributable This represents the revaluation reserves of subsidiary companies whose properties were transferred to the company during the year ended 31 December 1999 This proportion of the profit and loss account reserve will only be realised when the properties are sold outside the group

In accordance with Financial Reporting Standard 18 the Board regularly review the company's accounting policies to ensure that they remain the most appropriate

Financial Reporting Standard 20 – 'share based payment had been adopted during 2005 This change in accounting policy has been reflected in the accounts as a prior year adjustment in 2006

Had the previous accounting policy been maintained during the year ended 31 December 2006, profit before tax would have been £6,192 lower and net assets £29,391 higher

19 Reconciliation of movements in shareholders' funds

	2007	2006
	£000	£000
Loss on ordinary activities after taxation	**(383)**	(7,598)
Actuarial gain/(loss) on pension scheme	-	106
Movement on deferred tax relating to pension scheme	-	(31)
Increase in share capital	**18,241**	-
Net addition/(reduction) to shareholders funds	**17,858**	(7,523)
Opening shareholders' deficit	**(14,344)**	(6,787)
Prior year adjustment – FRS 20	-	(34)
Opening shareholders' deficit – as restated	**(14,344)**	(6,821)
Closing shareholders funds' / (deficit)	**3,514**	(14,344)

20 Profit and loss account and movements in shareholders funds

	Share Capital	**Profit & Loss Account**	**Total Shareholders funds**
	£000	**£000**	**£000**
Balance at 1 January 2007	50,000	(64,344)	(14,344)
Shares issued in the period	18,241	-	18,241
Retained loss for the financial period	-	(383)	(383)
Balance at 31 December 2007	**68,241**	**(64,727)**	**3,514**

Notes *(contınued)*

21 Other related party dısclosures

The company has taken advantage of the exemptıon ın FRS 8 'related party transactıons' not to dısclose transactıons between group companıes that are elımınated ın the consolıdated financıal statements of Avocet Hardware Lımıted, the ultımate parent company

The company purchase goods from Avocet Securıty Products Co Lımıted (Suzhou) ın whıch the company owns 51% of the ıssued share capıtal, on an arms' length basıs ın the year ended 31 December 2007, the company purchased goods totallıng £6,228,300 *(2006 £4,470,500)* from Avocet Securıty Co Lımıted (Suzhou) The company owed Avocet Securıty Co Lımıted (Suzhou) £287,000 at 31 December 2007 *(2006 £531,300)*

22 Cash settled share based payment transactıons

Prıor to the change ın ultımate parent undertakıng durıng the year (see note 25) The company offered senıor management a cash settled share based ıncentıve scheme, Phantom Stock Awards The values of thıs scheme were lınked to the share prıce of Masco Corporatıon (lısted on the New York Stock Exchange), the prevıous ultımate parent undertakıng and controllıng party Elıgıbılıty to each scheme was at the dıscretıon of the company The scheme was solely settled ın cash and partıcıpatıon ın the scheme dıd not ınfer the rıght to acquıre or be compensated through the ıssue of Masco Corporatıon ordınary share or sımılar capıtal ınstruments

Phantom Stock Awards

Phantom Stock Awards were notıonal stock awards to dırectors and selected employees The value of the granted award was lınked to the market prıce of Masco Corporatıon shares and was valued ın US dollars usıng a Black Scholes optıon prıcıng model (converted to Pounds Sterlıng at the relevant spot rate) at the grant date Phantom Stock Awards vested annually over a 10 year perıod from the grant date and were condıtıonal upon contınued servıce Phantom Stock Awards were exercısed ın full ımmedıately upon vestıng Phantom Stock Awards had a nıl exercıse prıce

In addıtıon, notıonal dıvıdends equal to amounts declared by Masco Corporatıon (converted to pound sterlıng at the relevant spot rate) accrue on the unvested portıon of Phantom Stock Awards and were paıd by the company on the annual vestıng date of the award

Movements ın the number of Phantom Stock Awards outstandıng are as follows

	2007	2006
	Phantom stock awards	
As 1 January 2007	**7,947**	7,663
Granted	-	550
Forfeıted	**(7,947)**	-
Exercısed	-	(656)
Expıred	-	390
At 31 December 2007	-	7,947
Exercısable	-	694

Notes *(continued)*

22 Cash settled share based payment transactions *(continued)*

The related average Masco Corporation share price at the time of exercise was not relevant in 2007 *(2006 £1,628)* Phantom Stock Awards outstanding at the end of the year have the following expiry date

	2007	2006
	Phantom stock awards	
2010	-	1,424
2011	-	3,096
2012	-	1,246
2015	-	1,350
2016	-	831
Exercisable	-	7,947

Expenses related to Phantom Stock Awards of £nil *(2006 £10,626)* are included within wages and salaries as disclosed in note 6, and are also included within aggregate directors' emoluments as disclosed in note 5

Short term liabilities related to the exercisable element of Phantom Stock Awards of £nil *(2006 £8,724)* are included within other creditors as disclosed in note 14

During 2007 all awards expired upon the company leaving the MASCO group as outlined in note 25 A credit to the profit and loss account of £40,000 was made to reflect this event being a release of the built up accrual

Long term liabilities related to the unexercised element of Phantom Stock Awards of £nil *(2006 £26,772)* were included within creditors – amounts falling due after more than one year as disclosed in note 15

The total intrinsic value of liabilities that had vested totalled £nil *(2006 £10,581)* The weighted average fair value of options granted during the year determined using the Black Scholes valuation model was £nil *(2006 £1,150)* per award The significant inputs into the model were not relevant for 2007

	2006
Weighted average share price (US dollar)	29 87
Exercise price	-
Volatility	35%
Dividend yield	2 9%
Expected option life	10 years
Annual risk free interest rate	4 72%

Notes *(continued)*

23 Financial and other commitments

Operating leases

At 31 December 2007 the company had annual commitments under non-cancellable operating leases expiring as follows

	Property		**Vehicles, plant and machinery**	
	2007	2006	**2007**	2006
	£000	£000	**£000**	£000
Within one year	**18**	18	**265**	130
Within two to five years	**45**	62	**593**	255
After five years		-		-
	63	80	**858**	385

Guarantees

The company has given a fixed and floating charge over all of its assets to Landsbanki Commercial Finance

The company has entered into a guarantee and debenture with Hotbed Limited (as security trustee) in relation to the obligations of the company's parent company, Avocet Holdings Limited The amount outstanding at the year end was £4,050,000

The company has given a duty deferment guarantee to HM Customs and Excise for £200,000 *(2006 £850,000)*

24 Pension scheme

The company a number of pension schemes, one of which (the Colin and Son Retirement Security Plan) provides defined benefits based on final pensionable salary, the assets of which are held separately from those of the group being invested with insurance companies During the year, this scheme was transferred out of the company (as part of the management buy-out led acquisition) and consequently the company has no liability in relation to this scheme The other schemes are defined contribution schemes all of which are independently managed

Defined contribution schemes

Contributions to the defined contribution schemes amounted to £107,000 *(2006 £115,000)*

Defined benefit scheme

An independent actuary has carried out calculations in accordance with the requirements of FRS 17 as at 31 December 2005 using the projected unit basis The scheme is closed to future benefit accruals and there are only deferred pensioners remaining in the scheme The major assumptions used by the actuary in measuring the present value of the scheme's liabilities were

	2007	2006	2005
Rate of increase in salaries	2 9%	2 9%	2 6%
Discount rate	5 1%	5 1%	4 7%
Inflation assumption	3 0%	3 0%	2 9%

Notes *(contınued)*

24 Pension scheme *(contınued)*

The assets of the scheme and the expected rates of return were

	Long-term rate of return expected at 31.12 07	**Value at 31.12 07 £000**	Long-term rate of return expected at 31 12 06	Value at 31 12 06 £000	Long-term rate of return expected at 31 12 05	Value at 31 12 05 £000
Equıtıes		-	7 9%	324	6 6%	545
Bonds		-	5 1%	319	4 7%	59
Cash		-	5 0%	51	4 5%	43
		-		694		647
Present value of the scheme lıabılıty		-		(1,197)		(1,285)
Deficıt ın the scheme		-		(503)		(638)
Related deferred tax asset		-		151		191
Net pensıon lıabılıty		-		(352)		(447)

As a condıtıon of the sale of the company durıng the year by Masco Inc to Avocet Holdıngs Lımıted, the defined benefit oblıgatıon was settled Masco Inc retaıned the accrued pensıon lıabılıty and became the sponsorıng employer, thus removıng any oblıgatıon ın respect to the defined benefit pensıon scheme from the company The buılt up lıabılıty has been credıted to the profit and loss account durıng the year to reflect thıs settlement as hıghlıghted ın note 4

Analysıs of the amount charged to operatıng profit/(loss)

	2007 £000	2006 £000
Current servıce cost	-	2
Total operatıng charge	-	2

Analysıs of net return on pensıon scheme

	2007 £000	2006 £000
Expect return on pensıon scheme assets	-	40
Interest on pensıon lıabılıtıes	-	(59)
Other finance costs	-	(19)

Notes *(continued)*

25 Pension scheme *(continued)*

Analysis of amounts recognised in statement of total recognised gains and losses

	2007 £000	2006 £000
Actual return less expected return on assets	-	9
Experience gains and losses on liabilities	-	13
Changes in assumptions	-	84
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	-	106

	2007	2006	2005	2004
Difference between expected and actual return on scheme assets				
Amount (£'000)	-	9	80	53
% of scheme assets	-	1	12	7
Experience gains and losses on scheme				
Amount (£'000)	-	13	(30)	(1)
% of scheme assets	-	1	(2)	-
Total amount recognised in statement of total recognised gains and losses				
Amount (£'000)	-	106	(147)	(2)
% of scheme assets	-	9	(11)	-

26 Immediate and ultimate parent undertaking

The ultimate parent undertaking is Avocet Holdings Limited, a company incorporated in the UK Copies of the financial statements of this company are available at Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ

The ultimate parent undertaking acquired ownership of the company on 1November 2007 from Masco Corporation Full details of this transaction can be found in the statutory accounts of Avocet Holdings Limited The key elements of the transaction which have had an impact on these financial statements are the removal of the phantom share scheme (see note 22) and the transfer of the sponsoring employer in relation to the company's defined benefit pension scheme (see note 24)