Avocet Hardware Limited

Directors' report and financial statements

Registered number 3288247

31 December 2010

Contents

Directors and advisors

Directors
Mr I G Jones
Mr M C Tuck
Mr N A Ridings

Secretary
Mr N A Ridings

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Directors' report

The directors present their report and audited financial statements of Avocet Hardware Limited ("the company') for the year ended 31 December 2010

Principal activities

The principal activities of the company can be summarised as follows

- the design, development, manufacture, procurement and distribution of door and window hardware, and
- the procurement and distribution of general fixings and ironmongery products for major UK DIY retailers, builders merchants and independent retailers

These activities are supported by a manufacturing facility in China and a sourcing office in Taiwan

Results and dividends

The results for the year are set out in the profit and loss account on page 8

The turnover for the year ended 31 December 2010 was £37,873,000 (2009 £38,338,000) which generated a gross profit £5,665,000 *(2009 £5,352,000)* The loss on ordinary activities before interest and tax was £253,000 *(2009 loss £946,000)*

No interim dividend was paid during the year (2009 £nil) No final dividend is proposed *(2009 £nil)*

During the period the business repaid £0 8m of term loan

Business environment and strategy

The business environment remains difficult with the recessionary impact across the UK economy driving lower consumer spending in the business sectors

The business strategy in the door and window hardware sector remains focussed on growth through the introduction of new products and new product ranges The composite door hinge and ABS lock, introduced in 2010, will provide the platform for business growth in the sector in 2011

The business strategy in the fixings and ironmongery sector remains focussed on introducing new hardware ranges in the UK major DIY retail sector

Whilst the outlook in both sectors remains difficult, the directors remain confident that the business is well placed to maintain market share in both sectors in 2011

Research and development

Research and investment in new product development remains a business priority The directors regard the investment in research and development as integral to the continuing success of the business and ensuring we provide our customers with new and innovative high quality products

Future outlook

The external commercial environment is expected to remain competitive in 2011 with sales growth expected to be driven by the launch of new products and outstanding levels of customer service

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

- UK recessionary pressure driving lower consumer spending and hence demand for our products
- Increasing competition in both sectors
- Raw material cost increases
- 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)

The company's directors monitor a number of KPI s in order to effectively manage the performance of the business These include gross margin, return on sales and return on net operating assets These KPI's are monitored against both budget and prior year with management actions implemented if corrective action is necessary

For the period under review, the gross margin of the company was 15 0% (2009 13 9%), the ratio of operating loss to sales was (0 7)% (2009 (2 4)%) and the ratio of operating loss to net operating assets (total assets less current liabilities excluding cash and bank loans) was (1 5)% (2009 (5 2)%)

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 is funded primarily by an asset based lending facility set out in more detail in note 14 The ability to draw down on this facility depends on there being adequate headroom under the facility and on not breaching covenants The Company rescheduled loan repayments to Landsbanki during 2011 These repayments are dependent upon the Company achiving ist forecast cash flows, and as such there is a material uncertainity, which is explained further in note 1

Directors' report *(continued)*

Directors

The directors who held office during the year were as follows

Mr I Jones
Mr M Tuck
Mr N A Ridings

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 represented 54 days of purchases *(2009 57 days)*

Political and charitable donations

The company made no political donations during the period Donations to UK charities amounted to £2,009 *(2009 £346)*

Disclosure of information to auditors

The directors who held office at the date of approval of this directors report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office

By order of the board

N A Ridings
Secretary
22/9/11

Brookfoot Mills
Elland Road
Brighouse
HD6 2RW

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 and applicable laws (UK Generally Accepted Accounting Practice)

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, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records 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 2006 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

KPMG LLP
1 The Embankment
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LS1 4DW
United Kingdom

Independent auditor's report to the members of Avocet Hardware Limited

We have audited the financial statements of Avocet Hardware Limited for the year ended 31 December 2010 set out on pages 8 to 23 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the company's ability to continue as a going concern It has prepared cash flow forecasts which show that it can meet the scheduled repayments on certain of its borrowings, although the headroom is not large, and which assume that the repayment of other borrowings of the group of which it forms part will be successfully deferred Should the forecast level of performance not be achieved, the company would be dependent on renegotiating the repayments with the lenders These matters, as explained in note 1 to the financial statements, indicate the existence of a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern

Independent auditor's report to the members of Avocet Hardware Limited *(continued)*

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Mike Barradell (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 The Embankment
Neville Street
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LS1 4DW

23 September 2011

Profit and loss account
for the year ended 31 December 2010

	Note	**2010** **£000**	2009 £000
Turnover	*2*	**37,873**	38,338
Cost of sales		**(32,208)**	(32,986)
Gross profit		**5,665**	5,352
Distribution costs		**(1,095)**	(1,212)
Administration expenses		**(4,823)**	(5,086)
Operating loss	*4*	**(253)**	(946)
Income from group undertakings	*7*	**427**	119
Other interest receivable and similar income	*7*	**3**	1
Interest payable and similar charges	*7*	**(856)**	(584)
Loss on ordinary activities before tax		**(679)**	(1,410)
Tax on loss on ordinary activities	*8*	**(66)**	(55)
Loss for the financial year	*17*	**(745)**	(1,465)

All items dealt with in arriving at operating loss 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

There were no recognised gains or losses in either year other than that disclosed in the profit and loss account above

Balance sheet
At 31 December 2010

	Note	2010 £000	2009 £000
Fixed assets			
Tangible assets	*9*	**5,596**	5,826
Investments	*10*	**3,490**	3,490
		9,086	9,316
Current assets			
Stocks	*11*	**8,565**	9,367
Debtors	*12*	**8,883**	9,739
Cash at bank and in hand		-	45
		17,448	19,151
Creditors amounts falling due within one year	*13*	**(11,228)**	(25,165)
Net current assets / (liabilities)		**6,220**	(6,014)
Total assets less current liabilities		**15,306**	3,302
Creditors amounts falling due after more than one year	*14*	**(15,249)**	(2,500)
Provisions for liabilities and charges		-	-
Net assets		**57**	802
Capital and reserves			
Called up share capital	*16*	**1,000**	1,000
Profit and loss account	*17*	**(943)**	(198)
Shareholders' funds	*18*	**57**	802

These financial statements were approved by the board of directors on 22 Sept 2011 and were signed on its behalf by

Ian Jones
Director

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

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements These financial statements present information about the Company as an individual undertaking and not about its group

The Company made a loss for the year of £745 000 (2009 loss £1 465 000) and had net assets of £57,000 (2009 net assets £802 000) Notwithstanding these facts the financial statements are prepared on a going concern basis which the directors believe to be appropriate for the following reasons

New facilities were agreed with PNC Business Credit (formerly KBC Business Capital) a member of PNC Financial Services Group in June 2010 committed for four years from that date The arrangement is again based around the freehold property debtor book and UK warehouse stock plus goods in transit The actual level is dependent on the value of assets to draw down against and hence the ongoing profitability of the Company Further details may be found in note 14

When the new facilities were agreed with PNC £900 000 of the former banking facilities, provided by Landsbanki were extended to a final repayment of June 2011 In 2011 the company's trading performance has been impacted in the Builders Hardware division by the administration of Focus and in the Door & Window division by the tough economic environment As a result of this the Company has agreed rescheduled repayments with Landsbanki, the first of which was paid on 31 August 2011 with the final instalment being due on 30 November 2011 The Company is currently operating within the terms of the PNC banking agreement which has been amended to reflect the Landsbanki position

The directors have prepared cash flow forecasts for the twelve months from the date of approval of the financial statements, which are the directors reasonable expectation of performance The forecasts indicate in the base case scenario that the Company will be able to operate within the facilities to comply with the revised loan terms and to make the revised repayments due to Landsbanki

However if sales and costs are not as forecast then due to the limited headroom the Company may not be able to meet the rescheduled Landsbanki repayments If the Company is unlikely to be able to make the repayments it will need to enter into further negotiations with the relevant parties

The 31 December 2010 financial statements of Avocet Holdings Limited the Company s ultimate parent company, which were approved on 22 September 2011 disclose that the borrowings of the group include a loan of £1,555 000 which is due for repayment in March 2012 The group forecasts assume that the stage payment of £240 000 due in November 2011 and the final repayment in March 2012 will be deferred based on the group directors previous experience with the lender although there can be no certainty that this will be successfully negotiated If it cannot be then it would have a significant impact on the group s ability to continue as a going concern which the Company is dependent upon to continue to operate

Although there can be no certainty either as to the Company s ability to meet its forecasts to enable it to repay its Landsbanki borrowings or as to the Group s successful deferral of the payment of the above loan at the date of approval of this report the directors have a reasonable expectation that both will be achieved and that the Company therefore has adequate resources to continue in operational existence for the foreseeable future

However as a consequence of the circumstances described above there is a material uncertainty that may cast significant doubt on the Company s ability to continue as a going concern and, therefore to continue realising its assets and discharging its liabilities in the normal course of its operations The financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate Such adjustments could include writing down of the assets to their recoverable amounts provision of further liabilities that might arise and reclassification of fixed assets as current assets and non-current liabilities as current liabilities

Notes *(continued)*

1 Accounting policies *(continued)*

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

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 land and buildings	-	40 years
Plant and machinery	-	10 years
Fixtures and fittings	-	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

Deferred tax

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

A net deferred tax asset is recognised only when, on the basis of all available evidence, if can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and/or from which the future reversal of underlying timing differences can be deducted

Deferred tax is measured at the average rate that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date Deferred tax is measured on a non-discounted basis

Notes *(continued)*

1 Accounting policies *(continued)*

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

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

Classification of financial instruments issued by the company

Following the adoption of FRS 25, financial instruments issued by the company are treated as equity (i e forming part of shareholders' funds) only to the extent that they meet the following two conditions

a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company, and

b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in the financial statement for called up share capital and share premium exclude amounts in relation to those shares

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges Finance payments associated with financial instruments are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders funds

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements

2 Segmental reporting

The company's activities consist of the manufacturing and sale of window & door hardware, screws, nails and home hardware in the United Kingdom with turnover and profit on ordinary activities for the year arising entirely from the company's principal activity

The geographical analysis of turnover is

	2010	2009
	£000	£000
Turnover		
United Kingdom	**37,367**	37,922
Rest of Europe	**489**	405
Rest of the World	**17**	11
	37,873	38,338

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, hence the company has taken advantage of the exemption from preparing a cash flow statement in accordance with Financial Reporting Standard No 1 (revised)

4 Loss on ordinary activities before taxation

	2010	2009
	£000	£000
Loss on ordinary activities before taxation is stated after charging		
Auditors remuneration		
Audit pursuant to legislation	**41**	39
Other services - fees paid to the auditor and its associates	**9**	8
Depreciation of tangible fixed assets – owned assets	**312**	325
Hire of plant and machinery - rentals payable under operating leases	**152**	178
Hire of other assets - operating leases	**93**	111
Exchange rate losses	**13**	380

5 Remuneration of directors

All directors are paid through the parent company Avocet Holdings Limited

	2010	2009
	£000	£000
Directors emoluments	**385**	341
Company contributions to money purchase pension schemes	**16**	19
	401	360

The aggregate of emoluments of the highest paid director was £154,360 *(2009 £160,000)*, (including company pension contributions of £5,285 *(2009 £9,000)* into a money purchase scheme)

	Number of directors 2010	Number of directors 2009
Retirement benefits are accruing to the following number of directors under		
Money purchase schemes	**3**	3

Notes *(continued)*

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 2010	2009
Production	**101**	104
Selling and distribution	**40**	40
Administration	**40**	47
	181	191

The aggregate payroll costs of these persons were as follows

	2010 £000	2009 £000
Wages and salaries	**3,143**	3,927
Social security costs	**267**	387
Other pension costs	**74**	77
	3,484	4,391

7 Other interest receivable and similar income

	2010 £000	2009 £000
Bank interest	**3**	1

Interest payable and similar charges

	2010 £000	2009 £000
Interest payable on bank loans and overdrafts	**(856)**	(584)

Income from group undertakings

	2010 £000	2009 £000
(Loss)/profit from sale of investment	**(2)**	119
Dividend received from subsidiary	**429**	-
	427	119

Notes *(continued)*

8 Taxation

Analysis of charge in period

	2010 £000	2009 £000
Current taxation		
Current tax	-	-
Adjustments in respect of prior year	62	(62)
Total current tax	62	(62)
Deferred tax		
Origination and reversal of timing differences	-	31
Adjustments in respect of prior years	4	86
Total deferred tax	4	117
Tax charge on loss on ordinary activities	66	55

Factors affecting the tax charge for the current period

The tax charge for the year is higher *(2009 higher)* than the standard rate of corporation tax applying in the United Kingdom 28% *(2009 28%)*

The differences are explained below

	2010 £000	2009 £000
Current tax reconciliation		
Loss on ordinary activities before tax	(679)	(1,410)
Current tax at 28% *(2009 28%)*	(190)	(395)
Effects of		
Expenses not deductible for tax purposes	(29)	(48)
Accelerated capital allowances and other timing differences	(7)	(29)
Group relief given for no charge	50	19
Unutilised losses carried forward	296	453
Adjustments to tax charge in respect of previous year	62	(62)
Dividend received from subsidiary undertaking	(120)	-
Total current tax charge/(credit)	62	(62)

Notes *(continued)*

9 Tangible fixed assets

	Freehold Land and buildings £000	Plant and machinery £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
Cost					
At 31 December 2009	5,934	3,333	947	15	10,229
Additions	-	82	-	-	82
At 31 December 2010	5,934	3,415	947	15	10,311
Depreciation					
At 31 December 2009	828	2,849	711	15	4,403
Charge for year	127	136	49	-	312
At 31 December 2010	955	2,985	760	15	4,715
Net book value					
At 31 December 2010	**4,979**	**430**	**187**	-	**5,596**
At 31 December 2009	5,106	484	236	-	5,826

There are no assets held on finance leases

Notes *(continued)*

10 Investments

	2010 £000
Cost and net book value	
At beginning of year	3,490
Disposals	-
At end of year	**3,490**

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%	Holding company
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 2010, 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

11 Stocks

	2010 £000	2009 £000
Finished goods and goods for resale	**8,565**	9,367

Notes *(continued)*

12 Debtors

	2010 £000	2009 £000
Trade debtors	**8,100**	8,074
Amounts owed by group undertakings	**234**	590
Other debtors	**252**	570
Corporation tax receivable	**-**	76
Deferred tax asset	**-**	4
Prepayments and accrued income	**297**	425
	8,883	9,739

13 Creditors amounts falling due within one year

	2010 £000	2009 £000
Trade creditors	**1,889**	2,331
Bank overdraft	**284**	-
Bank loan	**1,060**	14,959
Amounts owed to fellow group undertakings	**6,954**	6,657
Other taxation and social security	**677**	447
Accruals and deferred income	**364**	771
	11,228	25,165

14 Creditors: amounts falling after more than one year

	2010 £000	2009 £000
Amounts owed to fellow group undertakings	**2,500**	2,500
Bank loans	**12,749**	-
	15,249	2,500

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

Notes (continued)

14 Creditors: amounts falling after more than one year (continued)

Analysis of debt

	£000	£000
Repayable		
Within one year -		
Landsbanki loan	**784**	15,079
PNC loan	**276**	-
Unamortised issue costs	**-**	(120)
	1,060	14,959
Between two and five years -		
PNC	**12,985**	-
Unamortised issue costs	**(236)**	-
	12,749	-
	13,809	14,959

In June 2010, the Company agreed new 4 year facilities with PNC Business credit (formally KBC Business Capital, a division of KBC Bank NV) These provide for

(a) A property term loan This loan for £2,137,000 is repayable at £23,000 per month and carries an interest rate of 2 75% above base,
(b) A revolving credit facility secured against invoice debt This facility carries an interest rate of 2 5% above base,
(c) A revolving credit facility secured against inventory This facility carries an interest rate of 2 75% above base

The maximum aggregate amount that can be drawn at any one time is £18,500,000 The loans are secured by a first charge against the assets of the Company and its UK subsidiaries

In addition to these facilities, Landsbanki Commercial Finance has made available a loan of £900,000 repayable in scheduled amounts over the period to 30 November 2011 and carrying an interest rate of 5% above LIBOR This is secured by a charge over the assets of the Company and its UK subsidiaries subordinated to the PNC loans

The issue costs of each instrument, together with the interest expense, are allocated to the profit and loss account over the term of the respective facilities at a constant rate based on the original value of each instrument

Notes (continued)

15 Deferred taxation

	2010 £000	2009 £000
Accelerated capital allowances	-	(4)
Deferred tax asset (note 12)	-	(4)

The movement on deferred tax in the year is as follows

	£000
Deferred tax asset at 31 December 2009	(4)
Charge to the profit and loss account	4
Deferred tax asset at 31 December 2010	-

Factors that may affect future tax charges

There is no additional unprovided deferred tax liability in the company in either year

Notes *(continued)*

16 Called up share capital

	2010 £000	2009 £000
Authorised 2,759,000 ordinary shares of £1 each		
Balance at start of year	**2,759**	70,000
Capital reduction	**-**	(67,241)
Balance at end of year	**2,759**	2,759
Allotted, issued and fully paid 1,000,000 ordinary shares of £1 each		
Balance at start of year	**1,000**	
Capital reduction	**-**	
Balance at end of year	**1,000**	

17 Profit and loss account

	2010 £000	2009 £000
At beginning of year	**(198)**	(65,974)
Loss for the year	**(745)**	(1,465)
Special Resolution to extinguish shares	**-**	67,241
At end of year	**(943)**	(198)

Of the company's reserves £550,000 *(2009 £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

18 Reconciliation of movements in shareholders' funds

	2010 £000	2009 £000
Loss on ordinary activities after taxation	**(745)**	(1,465)
Net reduction to shareholders funds	**(745)**	(1,465)
Opening shareholders funds	**802**	2,267
Closing shareholders funds	**57**	802

Notes *(continued)*

19 Profit and loss account and movements in shareholders funds

	Share Capital £000	Profit & Loss Account £000	Total Shareholders funds £000
Balance at 31 December 2009	1,000	(198)	802
Retained loss for the financial year	-	(745)	(745)
Balance at 31 December 2010	**1,000**	**(943)**	**57**

20 Other related party disclosures

The company has taken advantage of the exemption in FRS 8 'related party transactions' not to disclose transactions between group companies that are eliminated in the consolidated financial statements of Avocet Holdings Limited, the ultimate parent company

21 Financial and other commitments

Operating leases

At 31 December 2010 the company had annual commitments under non-cancellable operating leases expiring as follows

	Property		Vehicles, plant and machinery	
	2010 £000	2009 £000	**2010 £000**	2009 £000
Within one year	**9**	-	**17**	55
Within two to five years	**-**	18	**250**	222
After five years	**10**	10	**-**	-
	19	28	**267**	277

Guarantees

The Company has given a fixed and floating charge over all of its assets to PNC Business Credit The security arrangements are detailed in Note 14

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 £210,000 (*2009 £120,000)*

Notes *(continued)*

22 Pension scheme

Defined contribution schemes

Contributions to the defined contribution schemes amounted to £73,600 *(2009 £76,500)* There are no amounts outstanding at the year end

23 Parent company undertaking

The Company is a subsidiary undertaking of Avocet Holdings Limited which is the ultimate parent company The smallest and largest group in which the results of the Company are consolidated is that headed by Avocet Holdings Limited