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FINE DÉCOR WALLCOVERINGS LIMITED

Financial Statements

31 December 2002

ERNST & YOUNG



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# Fine Décor Wallcoverings Limited

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Registered No. 411906

## **DIRECTORS**

P J Ciaccia  
K Grandberg  
J Grandberg  
C Jacob

## **SECRETARY**

P J Ciaccia

## **AUDITOR**

Ernst & Young LLP  
100 Barbirolli Square  
Manchester  
M2 3EY

## **BANKERS**

Lloyds Bank Plc  
P O Box 358  
King Street  
Manchester  
M60 2ES

## **REGISTERED OFFICE**

Victoria Mills  
Macclesfield Road  
Holmes Chapel  
Crewe  
Cheshire  
CW4 7PA

# Fine Décor Wallcoverings Limited

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## DIRECTORS' REPORT

The directors submit their report and the accounts for the period ended 31 December 2002.

### RESULTS AND DIVIDENDS

The result for the period was a profit of £11,364 (2001: loss £365,320). The directors do not recommend the payment of a dividend.

### PRINCIPAL ACTIVITY

The company is involved in the production, distribution and marketing of wallpaper products.

### REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The directors consider the performance of the company for the period under review to be satisfactory.

### DIRECTORS AND THEIR INTERESTS

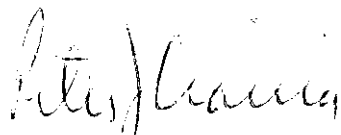
The directors during the year are listed on page 2.

There are no disclosable directors' interests in shares under the Companies Act 1985.

### AUDITOR

The company has passed a resolution to dispense with the obligation to appoint auditors annually.

By order of the board



Peter J Ciacgia

Date:

11 July 2003

## Fine Décor Wallcoverings Limited

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### STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the company's state of affairs at the end of the period and profit or loss for the period then ended. 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; and;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They 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.

**INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF FINE DECOR WALLCOVERINGS LIMITED**

We have audited the company's financial statements for the year ended 31 December 2002 which comprise the Profit and Loss Account, the Balance Sheet, Statement of Total Recognised Gains and Losses and the related notes 1 to 22. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

***Respective responsibilities of directors and auditors***

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom Law and Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

***Basis of audit opinion***

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company 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 affairs of the company as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Ernst & Young LLP*

Ernst & Young LLP  
Registered Auditor  
Manchester

*21 July 2003*

# Fine Décor Wallcoverings Limited

## PROFIT AND LOSS ACCOUNT for the year ended 31 December 2002

	Notes	2002 £	2001 £
<b>TURNOVER</b>	2	9,827,907	6,741,439
Cost of sales		7,032,267	4,801,352
<b>GROSS PROFIT</b>		2,795,640	1,940,087
Operating expenses		2,593,380	2,193,607
<b>OPERATING PROFIT/(LOSS)</b>	3	202,260	(253,520)
Interest receivable		(4,354)	-
Interest payable and similar charges	6	195,250	111,800
		190,896	111,800
<b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		11,364	(365,320)
Taxation	7	-	-
<b>PROFIT/(LOSS) FOR THE FINANCIAL YEAR</b>	16	11,364	(365,320)

### STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses except as shown above.

### COMPARATIVE FIGURES

The comparative figures are for the period from 20 November 2000 to 31 December 2001.

# Fine Décor Wallcoverings Limited

## BALANCE SHEET

at 31 December 2002

	Notes	2002 £	2001 £
<b>FIXED ASSETS</b>			
Intangible assets	8	218,256	245,883
Tangible assets	9	1,869,116	1,842,172
		<u>2,087,372</u>	<u>2,088,055</u>
<b>CURRENT ASSETS</b>			
Stocks	10	2,935,253	2,005,727
Debtors	11	4,495,314	3,025,455
Cash at bank and in hand		369,733	-
		<u>7,800,300</u>	<u>5,031,182</u>
<b>CREDITORS: amounts falling due within one year</b>	12	3,781,901	3,504,187
<b>NET CURRENT ASSETS</b>		<u>4,018,399</u>	<u>1,526,995</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>6,105,771</u>	<u>3,615,050</u>
<b>CREDITORS: amounts falling due after more than one year</b>	13	6,109,727	3,980,368
		<u>(3,956)</u>	<u>(365,318)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15	350,000	2
Profit and loss account	16	(353,956)	(365,320)
<b>EQUITY SHAREHOLDERS' DEFICIT</b>	16	<u>(3,956)</u>	<u>(365,318)</u>

These financial statements were approved by the board on 11 July 2003

  
Peter J Ciaccia - Director



STATEMENT OF CASH FLOWS  
for the year ended 31 December 2002

	Notes	2002 £	2001 £
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	17a	(1,615,966)	(1,637,571)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	17b	(190,896)	(111,800)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	17b	(259,209)	(2,274,552)
FINANCING	17b	2,479,357	3,980,370
INCREASE/(DECREASE) IN CASH		413,286	(43,553)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

		2002 £	2001 £
Increase/(decrease) in cash		413,286	(43,553)
Cash inflow from increase in loans		(2,129,359)	(3,980,368)
MOVEMENT IN NET DEBT	17c	(1,716,073)	(4,023,921)
OPENING NET DEBT	17c	(4,023,921)	-
CLOSING NET DEBT	17c	(5,739,994)	(4,023,921)

NOTES TO THE ACCOUNTS

at 31 December 2002

1. ACCOUNTING POLICIES

*Accounting convention*

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

*Fundamental accounting concept*

At the balance sheet date, the company had a liability for a loan of £3,177,942 (2001: £3,527,940) due to Grandberg Family Associates LP, in which the company's controlling parties, J and K Grandberg, are partners.

The directors have prepared the accounts on the going concern basis because Grandberg Family Associates LP has confirmed its intention that it will not call for repayment of its loan and will provide further funds if required to enable the company to continue to meet its obligations within one year of approval of the accounts. Accordingly, the loan is classified as a non-current liability in the balance sheet.

If financing by Grandberg Family Associates is withdrawn without replacement, the company would not be able to continue as a going concern and adjustments would be required to reduce the value of assets to their realisable amount, to reclassify fixed assets as current assets and to provide for any further liabilities which might arise.

*Depreciation*

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost of each asset evenly over its expected useful life, as follows:

Computer equipment	-	over 4 years
Fixtures and fittings	-	over 4 years
Plant and machinery	-	over 10 years
Motor vehicles	-	over 4 years

*Stocks*

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

*Operating leases*

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

*Pensions*

The company operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

*Goodwill*

Goodwill is capitalised, classified as an asset of the balance sheet and is amortised on a straight line basis over its useful economic life of ten years.

NOTES TO THE ACCOUNTS  
at 31 December 2002

1. ACCOUNTING POLICIES (continued)

*Deferred taxation*

The taxation charge is based on the result for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. FRS 19 'Deferred Tax' was issued on 7 December 2000 and is mandatory for years ending on or after 23 January 2002. The company has adopted FRS 19 in the period. The effect of the implementation of this standard on the results is not material. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax with the following exceptions:

- Provision is made for gains on disposals of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets;
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

2. TURNOVER

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties in respect of the company's continuing activities.

Turnover is analysed by market as follows:

	2002 £	2001 £
United Kingdom	3,802,656	3,046,351
Rest of Europe	862,366	695,042
North America	4,835,060	2,622,178
Rest of world	327,825	377,868
	<u>9,827,907</u>	<u>6,741,439</u>

# Fine Décor Wallcoverings Limited

## NOTES TO THE ACCOUNTS at 31 December 2002

### 3. OPERATING PROFIT/(LOSS)

This is stated after charging:

	2002 £	2001 £
Depreciation of owned tangible fixed assets	232,341	157,682
Loss on sale of tangible fixed asset	124	-
Amortisation of goodwill	27,627	28,815
Auditors' remuneration	16,500	13,000
Operating lease rentals - plant and machinery	80,466	63,600
- land and buildings	360,000	360,000
	<u>232,341</u>	<u>157,682</u>

### 4. DIRECTORS' EMOLUMENTS

	2002 £	2001 £
Emoluments	-	-
	<u>-</u>	<u>-</u>

### 5. STAFF COSTS

	2002 £	2001 £
Wages and salaries	2,213,369	1,756,756
Social security costs	189,968	148,877
Other pension costs	98,635	79,776
	<u>2,501,972</u>	<u>1,985,409</u>

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

	2002 No.	2001 No.
Executive	3	3
Design	5	5
Sales	4	4
Warehouse	6	6
Administration	13	13
Production	89	80
	<u>120</u>	<u>111</u>

# Fine Décor Wallcoverings Limited

## NOTES TO THE ACCOUNTS

at 31 December 2002

### 6. INTEREST PAYABLE

	2002 £	2001 £
Loan from related party	22,621	111,800
Bank loan and overdraft	172,629	-
	<u>195,250</u>	<u>111,800</u>

### 7. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

#### (a) Analysis of taxation charge for the period

	2002 £	2001 £
Current tax:		
UK corporation tax	-	-
	<u>-</u>	<u>-</u>

#### (b) Factors affecting the taxation charge for the period

The tax assessed for the period differs from the standard rate of 30% for corporation tax in the UK. The differences are explained below:

	2002 £	2001 £
Profit/(loss) on ordinary activities before taxation	11,364	(365,320)
Taxation charge/(credit) on profit/(loss) on ordinary activities at standard rate of corporation tax in the UK of 30% (2001: 30%)	<u>3,409</u>	<u>(109,596)</u>
Effects of:		
Disallowed expenses and non taxable income	25,538	(4,500)
Depreciation in excess of capital allowances	(33,470)	47,305
Other timing differences	(548)	4,220
Tax losses of the period	<u>5,071</u>	<u>62,571</u>
Current tax charge for the period	<u>-</u>	<u>-</u>

#### (c) Factors that may affect future tax charges

At 31 December 2002 there is an unprovided deferred tax asset of £64,557 (2001: £114,375) primarily in respect of tax losses and depreciation in advance of capital allowances.

# Fine Décor Wallcoverings Limited

## NOTES TO THE ACCOUNTS at 31 December 2002

### 8. INTANGIBLE FIXED ASSETS

#### Goodwill

	£
Cost:	
At 1 January 2002 and 31 December 2002	274,698
Amortisation:	
At 1 January 2002	28,815
Provided during the year	27,627
At 31 December 2002	56,442
Net book value:	
At 31 December 2002	218,256
At 1 January 2002	245,883

### 9. TANGIBLE FIXED ASSETS

	Computer equipment £	Fixtures & fittings £	Plant & machinery £	Motor vehicles £	Total £
Cost:					
At 1 January 2002	114,912	33,000	1,851,442	500	1,999,854
Additions	8,825	-	250,585	-	259,410
Disposals	-	-	-	(500)	(500)
At 31 December 2002	123,737	33,000	2,102,027	-	2,258,764
Depreciation:					
At 1 January 2002	21,883	1,625	134,049	125	157,682
Provided during the year	30,264	8,250	193,577	50	232,141
Disposals	-	-	-	(175)	(175)
At 31 December 2002	52,147	9,875	327,626	-	389,648
Net book value:					
At 31 December 2002	71,590	23,125	1,774,401	-	1,869,116
At 31 December 2001	93,029	31,375	1,717,393	375	1,842,172

# Fine Décor Wallcoverings Limited

## NOTES TO THE ACCOUNTS

at 31 December 2002

### 10. STOCKS

	2002 £	2001 £
Raw materials	383,462	271,468
Work in progress	114,953	70,565
Finished goods for resale	2,436,838	1,663,694
	<u>2,935,253</u>	<u>2,005,727</u>

### 11. DEBTORS

	2002 £	2001 £
Trade debtors	3,096,492	1,206,080
Other debtors	-	19,577
Prepayments and accrued income	1,191,789	1,186,140
Amounts due from related undertakings	207,033	613,658
	<u>4,495,314</u>	<u>3,025,455</u>

### 12. CREDITORS: amounts falling due within one year

	2002 £	2001 £
Bank overdraft	-	43,553
Trade creditors	1,206,859	1,040,101
Other creditors	-	17,202
Other taxes and social security	88,620	111,176
Amounts owed to related parties	2,252,983	1,692,527
Accruals and deferred income	233,439	599,628
	<u>3,781,901</u>	<u>3,504,187</u>

### 13. CREDITORS: amounts falling due after more than one year

	2002 £	2001 £
Loans from related parties	3,630,370	3,980,368
Bank loan	2,479,357	-
	<u>6,109,727</u>	<u>3,980,368</u>

# Fine Décor Wallcoverings Limited

## NOTES TO THE ACCOUNTS

at 31 December 2002

### 14. LOANS

	2002 £	2001 £
<i>Maturity of bank loans and overdraft</i>		
In more than one year, but not more than two years	248,465	-
In more than two years, but not more than five years	2,230,892	-
In more than five years	3,630,370	3,980,368
	<u>6,109,727</u>	<u>3,980,368</u>

### 15. SHARE CAPITAL

	2002 £	2001 £
<i>Authorised</i>		
Ordinary shares of £1 each	125,000	1,000
Ordinary non-voting shares of £1 each	375,000	-
	<u>500,000</u>	<u>1,000</u>

	2002 No.	2001 No.	2002 £	2001 £
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each	87,500	2	87,500	2
Ordinary non-voting shares of £1 each	262,500	-	262,500	-
	<u>350,000</u>	<u>2</u>	<u>350,000</u>	<u>2</u>

On 17 September 2002 the authorised share capital of the company was increased to £500,000 of £1 each following which the company issued 349,998 ordinary shares of £1 each for cash at par. On 30 September 2002, 262,500 ordinary shares of £1 each in issue were redesignated as non-voting ordinary shares. The non-voting ordinary shares carry the same rights and privileges and shall rank pari passu with the ordinary shares except that the holders of the non-voting shares do not have the right to vote at any general meeting.

### 16. RECONCILIATION OF SHAREHOLDERS' DEFICIT AND MOVEMENTS ON RESERVES

	Share capital £	Profit and loss account £	Total £
Share capital issued	2	-	2
Loss for the period	-	(365,320)	(365,320)
At 31 December 2001	<u>2</u>	<u>(365,320)</u>	<u>(365,318)</u>
Share capital issued	349,998	-	349,998
Profit for the year	-	11,364	11,364
At 31 December 2002	<u>350,000</u>	<u>(353,956)</u>	<u>(3,956)</u>



NOTES TO THE ACCOUNTS

at 31 December 2002

17. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit/(loss) to net cash flow from operating activities

	2002	2001
	£	£
Operating profit/(loss)	202,260	(253,520)
Loss on sale of fixed asset	124	-
Depreciation	232,141	157,682
Amortisation of goodwill	27,627	28,815
Increase in debtors	(1,469,859)	(3,025,455)
Increase in stocks	(929,526)	(2,005,727)
Increase in creditors	321,267	3,460,634
Net cash outflow from operating activities	(1,615,966)	(1,637,571)

(b) Analysis of cash flows for headings netted in the statement of cash flows

	2002	2001
	£	£
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		
Interest paid	(195,250)	(111,800)
Interest received	4,354	-
	(190,896)	(111,800)

**CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT**

Payments to acquire tangible fixed assets	(259,410)	(1,999,854)
Payments to acquire intangible fixed assets	-	(274,698)
Receipts from sales of tangible fixed assets	201	-
	(259,209)	(2,274,552)

**FINANCING**

Issue of ordinary share capital	349,998	2
Loans	2,129,359	3,980,368
	2,479,357	3,980,370

(c) Analysis of changes in net debt

	At 1 January 2002 £	Cash flow £	At 31 December 2002 £
Bank and cash	-	369,733	369,733
Bank overdraft	(43,553)	43,553	-
Loans	(3,980,368)	(2,129,359)	(6,109,727)
	(4,023,921)	(1,716,073)	(5,739,994)

# Fine Décor Wallcoverings Limited

## NOTES TO THE ACCOUNTS

at 31 December 2002

### 18. PENSION COMMITMENTS

The company operates a defined contribution pension scheme, the Fine Art Décor Group Personal Pension Plan, for directors and senior employees. The assets of the scheme are held separately from those of the company in an independently administered fund. There are no unpaid or prepaid contributions at the year end (2001: £nil).

### 19. DEFERRED TAXATION

The deferred tax asset, which is not provided in the accounts, is as follows:

	2002 £	2001 £
Depreciation in advance of capital allowances	(22,749)	(47,305)
Other timing differences	(36,737)	-
Tax losses	(5,071)	(67,070)
	<u>(64,557)</u>	<u>(114,375)</u>

### 20. OTHER FINANCIAL COMMITMENTS

At 31 December 2002 the company had annual commitments under non-cancellable operating leases as set out below:

	2002 £	Land and buildings 2001 £	2002 £	Other 2001 £
Operating leases which expire:				
In two to five years	-	-	80,669	66,234
Over five years	363,200	363,200	-	-
	<u>363,200</u>	<u>363,200</u>	<u>80,669</u>	<u>66,234</u>

# Fine Décor Wallcoverings Limited

## NOTES TO THE ACCOUNTS

at 31 December 2002

### 21. RELATED PARTIES

During the year the company entered into transactions, in the ordinary course of business, with related parties as follows:

	<i>Sales to related party £</i>	<i>Purchases from related party £</i>	<i>Amount due from related party £</i>	<i>Amount due to related party £</i>
Brewster Wallpaper Corporation	2,692,561	145,625	-	(2,107,357)
BWC International Limited	566,604	97,633	-	(145,625)
International Wallcoverings Company	714,292	-	207,033	-

The above companies are subsidiary undertakings of BWC International Inc., a company incorporated in the United States of America, in which K and J Grandberg are directors and shareholders.

The company has a loan of £3,177,942 (2001: £3,527,940) from Grandberg Family Associates LP, a partnership controlled by K and J Grandberg. The interest charged for the period on this loan was £nil (2001: £111,800).

The company received a loan of £nil (2001: £452,428) in the period from Brewster Wallpaper Corp., a company controlled by K and J Grandberg. The interest charged for the period on this loan was £22,621 (2001: £nil).

### 22. PARENT UNDERTAKING AND CONTROLLING PARTY

In the opinion of the directors, the ultimate controlling parties are J and K Grandberg and their family interests.