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Pilkington's Tiles Limited

Report and Financial Statements

31 March 2004

 ERNST & YOUNG



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COMPANIES HOUSE

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Registered No: 33221

Directors

M J Hesketh	(resigned 28 May 2004)
M L Hughes	(resigned 28 May 2004)
L A K Blamire	(resigned 26 May 2004)
G E Ashcroft	
S J Clark	
D A Hulse	
A Garrido	(appointed 14 April 2003)
S Lloyd	(appointed 28 May 2004)
R Tarr	(appointed 28 May 2004)
S Whiteley	(appointed 28 May 2004)

Secretary

S Lloyd

Auditors

Ernst & Young LLP
100 Barbirolli Square
Manchester
M2 3EY

Bankers

The Co-operative Bank plc
1 Balloon Street
Manchester
M60 4EP

Registered Office

PO Box 4
Rake Lane
Clifton Junction
Manchester
M27 8LP

Directors' report

The directors present their report and financial statements for the year ended 31 March 2004.

Results and dividends

The loss for the year after taxation amounted to £1,019,000 (2003: loss of £1,655,000).

Post Balance Sheet Events

On 25 May 2004 the company sold freehold land and buildings at Hamworthy in Poole Dorset to its then parent company Pilkington's Tiles Group Plc for £4.75m, being the open market value at that date, realising a profit on disposal of £1.5m.

On 26 May 2004, in order to simplify the Group Financial structure, the majority of the group's intercompany balances were waived. This resulted in a credit to the profit and loss reserve of £9,677,853 which is tax neutral.

On 28 May 2004 Pilkington's Tiles Group plc sold its investment in Pilkington's Tiles Limited to Surface Coatings Limited. On the same day Surface Coatings Limited subscribed for £1.9m of cash into new shares in Pilkington's Tiles Limited increasing the balance sheet by a further £1.9m.

On 3 June 2004 the company sold the freehold land and buildings at Clifton Junction for £1.6m to its parent company Surface Coatings Limited in settlement of an interim dividend.

Principal activities and review of the business

The principal activity of the company during the year was the manufacture and sale of ceramic and terrazzo tiles and associated adhesive products.

Directors

The directors who served during the year are listed on page 1.

The directors who held office at 31 March 2004 who had interests (including options) in the shares of the ultimate parent company Pilkington's Tiles Group plc as follows:

	<i>Ordinary shares of 5p each at 31 March 2004</i>	<i>Ordinary shares of 5p each at 31 March 2003</i>	<i>Share options at 31 March 2004</i>	<i>Share options at 31 March 2003</i>	<i>Exercise price</i>
M L Hughes	366,000	366,000	1,406,599	1,406,599	13.33p
M J Hesketh	196,560	196,560	1,250,000	1,250,000	5.0p
L A K Blamire	-	-	271,185	271,185	14.75p
S J Clark	12,650	12,650	135,592	135,592	14.75p

G E Ashcroft, A Garrido and D A Hulse had no interests in the shares of Pilkington's Tiles Group plc.

The directors do not have any other interests which are required to be disclosed under the Companies Act 1985.

Research and development

The company carries out research and development in support of its activities.

Directors' report

Supplier statement policy

The company does not impose standard payment terms on its suppliers but agrees specific terms with each. It is the company's policy to pay its suppliers in accordance with the terms which have been agreed.

At 31 March 2004 the company had an average of 57 days purchases outstanding in trade creditors (2003: 54 days).

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming 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 disabled persons should, as far as possible, be identical with that of other employees.

Employees

The Board places considerable value on the involvement of its employees and has improved its practice of keeping them informed on matters affecting them as employees and on various matters affecting the performance of the company. Health and Safety Committees are in place at the company's factories.


Charitable donations

During the period the company made charitable donations of £Nil (2003: £Nil).

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the board



S Lloyd
Secretary

- 5 OCT 2004

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Pilkington's Tiles Limited

We have audited the company's financial statements for the year ended 31 March 2004 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Reconciliation of Shareholders' Funds, Balance Sheet, Pro forma Balance Sheet and the related notes 1 to 24. 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.

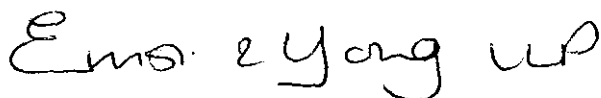
Basis of audit opinion

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's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 March 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
Manchester

14 OCT 2004

Profit and loss account

for the year ended 31 March 2004

	Notes	2004 £'000	2003 £'000
Turnover	2	26,570	23,578
Operating costs	3	27,594	26,003
Operating loss		(1,024)	(2,425)
Income from investments	6	-	356
Interest receivable	7	-	3
Interest payable and similar charges	8	(385)	(417)
Loss on ordinary activities before taxation		(1,409)	(2,483)
Tax credit on loss on ordinary activities	9	390	828
Loss retained for the year	19	(1,019)	(1,655)

Note of historical cost profits and losses

	2004 £'000	2003 £'000
Reported loss on ordinary activities before taxation	(1,409)	(2,483)
Historical cost loss on ordinary activities before taxation	(1,409)	(2,483)
Historical cost loss for the year retained after taxation	(1,019)	(1,655)

Statement of total recognised gains and losses

for the year ended 31 March 2004

	2004 £'000	2003 £'000
Loss for the financial year	(1,019)	(1,655)
Unrealised surplus on revaluation of freehold property	781	-
Total recognised gains and losses relating to the year	(238)	(1,655)
Total gains and losses recognised since the last annual report	(238)	(1,655)

Reconciliation of shareholders' funds

for the year ended 31 March 2004

	2004 £'000	2003 £'000
Total recognised gains and losses	(238)	(1,655)
Opening shareholders' funds	38	1,693
Closing shareholders' funds	(200)	38

Balance sheet

at 31 March 2004

	Notes	2004 £'000	2003 £'000
Fixed assets			
Intangible fixed assets	10	738	790
Investments	11	9	9
Tangible assets	12	14,035	14,883
		<u>14,782</u>	<u>15,682</u>
Current assets			
Stocks	13	5,302	4,870
Debtors	14	11,925	10,561
Cash at bank and in hand		1	1
		<u>17,228</u>	<u>15,432</u>
Creditors: amounts falling due within one year	15	(31,133)	(28,235)
		<u>(13,905)</u>	<u>(12,803)</u>
Net current liabilities			
Total assets less current liabilities		<u>877</u>	<u>2,879</u>
Creditors: amounts falling due after more than one year	16	(935)	(2,305)
Provisions for liabilities and charges	17	(142)	(536)
		<u>(200)</u>	<u>38</u>
Capital and reserves			
Called up share capital	18	1,435	1,435
Share premium account	19	285	285
Revaluation reserve	19	2,362	1,581
Profit and loss account	19	(4,282)	(3,263)
		<u>(200)</u>	<u>38</u>
Equity shareholders' funds	19	<u>(200)</u>	<u>38</u>



S Lloyd
Director

- 5 OCT 2004

Pro forma balance sheet

at 31 March 2004

	<i>As reported 31 March 2004</i>	<i>Poole property sale to parent (Note a)</i>	<i>Inter- company funding (Note b)</i>	<i>Inter- company waiver (Note c)</i>	<i>Pro forma 31 March 2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Fixed Assets					
Intangible fixed assets	738	-	-	-	738
Investments	9	-	-	-	9
Tangible assets	14,035	(3,250)	-	-	10,785
	14,782	(3,250)	-	-	11,532
Current assets					
Stocks	5,302	-	-	-	5,302
Debtors	11,925	-	232	(8,792)	3,365
Cash at bank and in hand	1	-	-	-	1
	17,228	-	232	(8,792)	8,668
Creditors: amounts falling due within one year	(31,133)	4,750	(232)	18,470	(8,145)
Net current (liabilities)/assets	(13,905)	4,750	-	9,678	523
Total assets less current liabilities	877	1,500	-	9,678	12,055
Creditors: amounts falling due after more than one year	(935)	-	-	-	(935)
Provisions for liabilities and charges	(142)	-	-	-	(142)
	(200)	1,500	-	9,678	10,978
Capital and reserves					
Called up share capital	1,435	-	-	-	1,435
Share premium account	285	-	-	-	285
Revaluation reserve	2,362	(2,290)	-	-	72
Capital reserve	-	-	-	9,678	9,678
Profit and loss account	(4,282)	3,790	-	-	(492)
Equity shareholders' funds	(200)	1,500	-	9,678	10,978

In order to present the financial position of the company following the group restructuring on 26 May 2004 (see note 24), the pro forma balance sheet has been prepared by the directors as though the following transactions had occurred at 31 March 2004:

- The sale of the Poole property to the parent company, for a consideration of £4,750,000, satisfied by a reduction in the amounts owing to the parent company.
- Increase in amounts owed by fellow subsidiaries by £232,000.
- The waiver of all inter-company debtors and creditors as shown in notes 14 and 15, including the remaining amounts due to the parent company.

Notes to the financial statements

at 31 March 2004

1. Accounting policies

Basis of preparation

The company meets its day to day working capital requirements through a loan facility which is repayable on demand. The company expects to operate within the facility, which is due for renewal in May 2007. These views are based on the company's plans and projected cash flow information. The directors believe it is therefore appropriate to prepare the financial statements on the going concern basis.

The financial statements are prepared under the historical cost convention, modified to include the revaluation of certain fixed assets, and in accordance with applicable accounting standards.

Cash flow statement

The company is a wholly owned subsidiary undertaking of Surface Coatings Limited. As a consequence it is exempt under Financial Reporting Standard 1 (Revised) from the requirement to publish a cash flow statement.

Intangible fixed assets

Goodwill arising on the acquisition of businesses is capitalised and amortised over its estimated economic life to a maximum of 20 years. Other intangible fixed assets are initially valued at cost and are also amortised after their economic life. Intangible fixed assets are reviewed for impairment at the end of the first full year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

If a business is subsequently sold or closed, any goodwill that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

Depreciation of tangible assets

Tangible fixed assets are depreciated over their estimated useful lives at the following annual rates applied to original cost:

Freehold land used as a quarry	4%
Plant and machinery	7.5%
Motor vehicles	20%
Computer equipment and software	20% to 33.3%
Furniture, fittings and office equipment	20%

No depreciation is provided on land.

The carrying value of fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Leased assets

Assets held under finance leases are capitalised and depreciated over the useful economic life of the asset. Related liabilities are shown in creditors. Repayments are apportioned between interest and capital to produce a constant rate of charge on the outstanding balance over the period of the lease.

Rentals under operating leases are charged on a straight line basis over the lease term, even if the payments are not made on such a basis.

Notes to the financial statements

at 31 March 2004

1. Accounting policies (continued)

Stocks

Stocks are valued 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; in the case of manufactured products cost includes all direct expenditure and production overheads based on the normal level of activity. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the cost of realisation and, where appropriate, the cost of converting from their existing state to a finished condition. Provision is made for obsolete and slow moving items.

Pension costs

Principally the company operates a defined benefit pension scheme. The fund is valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rates. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services. The effects of variations from regular costs are spread over the expected average remaining lives of members of the scheme.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction, or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currency are translated at the rates ruling at the period end. Exchange differences arising from the retranslation of foreign currency denominated assets and liabilities together with other exchange differences arising in the period are included in the profit and loss account.

Deferred taxation

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 a right to pay less or to receive more tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- 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 an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Research and development

Expenditure on research and development is charged to the profit and loss account as incurred.

Capital instruments

The finance cost recognised in the profit and loss account in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying amount.

Notes to the financial statements

at 31 March 2004

2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties. An analysis of turnover for the company by geographical market is set out below:

	2004 £'000	2003 £'000
United Kingdom and Europe	25,925	23,270
Other	645	308
	<u>26,570</u>	<u>23,578</u>

Turnover and profit on ordinary activities before taxation are principally attributable to the company's main class of business, the manufacture and sale of ceramic tiles and associated adhesive products, and arises from goods produced in the United Kingdom.

3. Operating costs less other operating income

	2004 £'000	2003 £'000
Change in stocks of finished goods and work in progress	(432)	173
Raw materials and consumables	10,448	7,261
Other external charges	8,633	8,961
Staff costs (note 5)	7,116	7,588
Depreciation of tangible fixed assets	1,829	2,020
	<u>27,594</u>	<u>26,003</u>

Operating costs are stated after charging:

	2004 £'000	2003 £'000
Auditors' remuneration		
- audit services	42	42
- non-audit services	24	11
Operating lease rentals		
- plant and machinery	223	228
- land and buildings	86	157
Depreciation of tangible fixed assets		
- owned assets	1,611	1,832
- assets under finance leases	218	188
(Profit)/loss on disposal of fixed assets	(3)	15
Amortisation of intangible fixed assets	53	46
Exceptional costs:		
- redundancy costs	-	206

Notes to the financial statements

at 31 March 2004

4. Directors remuneration

	2004 £'000	2003 £'000
Directors' emoluments	391	373

Company contributions to money purchase pension schemes	5	5
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The amounts in respect of the highest paid director are:

	2004 £'000	2003 £'000
Emoluments	181	183

Company contributions to money purchase pension	6	6
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Accumulated total accrued pension under defined benefit scheme at 31 March	15	9
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No director exercised share options in the year (2003: £Nil) and no shares were received or receivable under long term incentive schemes by the directors (2003: Nil).

The number of directors who were members of pension schemes was as follows:

	2004 No.	2003 No.
Defined benefit schemes	5	4
Defined contribution schemes	1	1

5. Staff costs

	2004 £'000	2003 £'000
Wages and salaries	6,073	6,624
Social security costs	556	498
Other pension costs	487	466
	7,116	7,588

Notes to the financial statements

at 31 March 2004

5. Staff costs (continued)

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

	2004 No.	2003 No.
Production	203	279
Sales and Marketing	80	42
Administration	42	43
	<u>325</u>	<u>364</u>

6. Income from shares in group companies

	2004 £'000	2003 £'000
Income group undertakings	-	356

7. Interest receivable

	2004 £'000	2003 £'000
Bank interest receivable	-	3

8. Interest payable and similar charges

	2004 £'000	2003 £'000
Interest payable on overdraft	361	354
Finance charges payable under finance leases	24	36
Interest payable on late corporation tax	-	27
	<u>385</u>	<u>417</u>

Notes to the financial statements

at 31 March 2004

9. Taxation

(a) Analysis of (credit)/charge in the year

Current tax:

	2004 £'000	2003 £'000
UK corporation tax on losses of the year	61	(201)
Adjustments in respect of previous years	(57)	(39)
Total current tax (note 9(b))	4	(240)
<i>Deferred tax:</i>		
Origination and reversal of timing differences	(394)	(588)
Taxation on loss on ordinary activities	(390)	(828)

(b) Factors affecting the tax charge for the year

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%), the differences are explained below:

	2004 £'000	2003 £'000
Loss on ordinary activities before taxation	(1,409)	(2,483)
Loss multiplied by the standard rate of corporation tax in the UK of 30%	(423)	(745)
Effects of:		
Expenses not deductible/(income not taxable) for tax purposes	34	(62)
(Accelerated)/decelerated capital allowances	(57)	510
Adjustments to tax charge in respect of previous years	4	(39)
Group relief surrendered for nil payment	35	-
Other differences	2	18
Tax losses carried forward	405	78
Total current tax (note 9(a))	4	(240)

(c) Factors that may affect future tax charges

Based on current capital investment plans, the Group expects to continue to be able to claim capital allowances in excess of depreciation in future years.

No provision has been made for deferred tax on revaluation gains on land and buildings due to the existence of capital losses which are available for offset against such gains.

Notes to the financial statements

at 31 March 2004

10. Intangible fixed assets

	<i>Know-how</i> <i>£'000</i>	<i>Patents</i> <i>£'000</i>	<i>Goodwill</i> <i>£'000</i>	<i>Total</i> <i>£'000</i>
Cost:				
At 1 April 2003 and 31 March 2004	350	100	540	90
Amortisation:				
At 1 April 2003	76	20	104	200
Provided during the year	21	5	26	52
At 31 March 2004	97	25	130	252
Net book value:				
At 31 March 2004	253	75	410	738
At 1 April 2003	274	80	436	790

Goodwill relates to the acquisition of the trade and assets of Woolliscroft Tiles and is being amortised over the directors' estimate of useful economic life of 20 years.

Patents and know-how are amortised over their useful economic lives of 20 years.

Notes to the financial statements

at 31 March 2004

11. Fixed asset investments

£'000

Cost:

At 1 April 2003 and 31 March 2004

9

The company has investments in the following subsidiary undertakings:

<i>Name of company</i>	<i>Country of registration and of operation</i>	<i>Principal activity</i>	<i>Description and proportion of shares held by the company</i>
Historic City Investments Limited	England and Wales	Dormant	Ordinary shares of £1 each (100%)
Quiligotti Home Products Limited (In Administrative Receivership)	England and Wales	Dormant	Ordinary shares of £1 each (100%)
Southampton Flooring and Paving Company Limited	England and Wales	Dormant	Ordinary shares of £1 each (100%)
Cristofoli (UK) Limited	England and Wales	Dormant	Ordinary shares of £1 each (100%)
Quiligotti Industrial Flooring Limited	England and Wales	Dormant	Ordinary shares of £1 each (100%)

12. Tangible fixed assets

	<i>Freehold land and buildings £'000</i>	<i>Plant and machinery £'000</i>	<i>Fixtures and fittings £'000</i>	<i>Motor vehicles £'000</i>	<i>Total £'000</i>
Cost or valuation:					
At 1 April 2003	4,477	30,906	1,583	337	37,303
Additions	44	70	39	82	235
Revaluation	781	-	-	-	781
Disposals	-	-	(42)	(109)	(151)
At 31 March 2004	5,302	30,976	1,580	310	38,168
Depreciation:					
At 1 April 2003	386	20,569	1,356	109	22,420
Provided during the year	54	1,592	109	74	1,829
Disposals	-	-	(42)	(74)	(116)
At 31 March 2004	440	22,161	1,423	109	24,133
Net book value:					
At 31 March 2004	4,862	8,815	157	201	14,035
At 1 April 2003	4,091	10,337	227	228	14,883

Notes to the financial statements

at 31 March 2004

12. Tangible fixed assets (continued)

The freehold land and buildings were valued by Edward Symmons & Partners as at October 2003, on the basis of existing use value in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors.

Included within the cost of plant and machinery is capitalised interest of £245,867 (2003: £245,867).

The net book value of land, which is depreciated, is £3,804,000 (2003: £2,664,000).

The net book value of freehold land and buildings comprises:

	2004	2003
	£'000	£'000
At valuation	4,862	4,098
At cost	-	-
	<u>4,862</u>	<u>4,098</u>

The historical cost of freehold land and buildings at 31 March 2004 is £2,813,000 (2003: £2,769,000) and the net book value on the historical cost basis at 31 March 2004 is £2,624,000 (2003: £2,580,000).

The net book value of plant and machinery above includes an amount of £1,035,000 (2003: £1,311,000) in respect of assets held under finance leases and hire purchase contracts.

13. Stocks

	2004	2003
	£'000	£'000
Raw materials and consumables	962	1,271
Work in progress	401	406
Finished goods	3,939	3,193
	<u>5,302</u>	<u>4,870</u>

14. Debtors

	2004	2003
	£'000	£'000
Trade debtors	3,090	3,063
Prepayments and accrued income	271	530
Amounts due from parent and fellow subsidiary undertakings	8,560	6,964
Corporation tax	4	4
	<u>11,925</u>	<u>10,561</u>

As described in note 24, the amounts due from the parent and fellow subsidiary undertakings were waived in May 2004.

Notes to the financial statements

at 31 March 2004

15. Creditors: amounts falling due within one year

	2004 £'000	2003 £'000
Bank overdraft	49	1,888
Loans	1,743	1,000
Obligations under finance leases and hire purchase contracts	59	224
Trade creditors	3,812	3,754
Amounts due to parent and fellow subsidiary undertakings	23,220	18,903
Other taxes and social security costs	839	792
Other creditors	1,411	1,674
	<u>31,133</u>	<u>28,235</u>

As described in note 24, the amounts due to the parent and fellow subsidiary undertakings were waived in May 2004.

16. Creditors: amounts falling due after more than one year

	2004 £'000	2003 £'000
Loans	880	2,250
Obligations under finance leases and hire purchase contracts	55	55
	<u>935</u>	<u>2,305</u>

Loans include amounts advanced by GMAC Commercial Finance against stock and debtors and bank loans secured over freehold land and buildings and fixed assets.

An analysis of loans is as follows:

	2004 £'000	2003 £'000
Amounts falling due:		
In one year or less or on demand	1,743	1,000
In more than one year but not more than two years	173	1,000
In more than two years but not more than five years	364	1,250
In more than five years	576	-
	<u>2,856</u>	<u>3,250</u>
Less: issue costs	(233)	-
	<u>2,623</u>	<u>3,250</u>
Less: included in creditors amounts falling due within one year	1,743	1,000
	<u>880</u>	<u>2,250</u>

Loans not wholly repayable within five years:

Bank loan £960,000, repayable in 120 monthly instalments of £80,000 commencing April 2005, bearing interest at 2.25% above Bank of England borrowing rate

960	-
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Notes to the financial statements

at 31 March 2004

16. Creditors: amounts falling due after more than one year (continued)

Obligations under finance leases and hire purchase contracts are repayable as follows:

	2004 £'000	2003 £'000
Within one year	66	234
Between one and two years	51	42
Between two and five years	8	15
	<hr/> 125	<hr/> 291
Less: finance charges allocated to future periods	(11)	(12)
	<hr/> 114	<hr/> 279
Finance leases and hire purchase contracts are analysed as follows:		
Due within one year	59	224
After more than one year	55	55
	<hr/> 114	<hr/> 279

17. Provisions for liabilities and charges

Provisions for liabilities and charges comprise:

	2004 £'000	2003 £'000
Deferred taxation	142	536
Deferred taxation has been provided as follows:		
	2004 £'000	2003 £'000
Excess of tax allowances over book depreciation of fixed assets	721	641
Other timing differences	(579)	(105)
	<hr/> 142	<hr/> 536

The movement on deferred taxation comprises:

	£'000
At 1 April 2003	536
Released to profit and loss account for the year	(394)
At 31 March 2004	<hr/> 142

Notes to the financial statements

at 31 March 2004

18. Called up share capital

	Authorised		Allotted, called up and fully paid	
	2004 No.	2003 No.	2004 £'000	2003 £'000
5,738,000 Ordinary shares of 25p each	5,738,000	5,738,000	1,435	1,435

19. Reconciliation of shareholders' funds and movement on reserves

	Share capital £'000	Share Premium account £'000	Revaluation reserve & loss £'000	Profit & loss account £'000	Total share- holders' funds £'000
At 1 April 2002	1,435	285	1,581	(1,608)	1,693
Loss for the year	-	-	-	(1,655)	(1,655)
At 31 March 2003	1,435	285	1,581	(3,263)	38
Surplus on revaluation	-	-	781	-	781
Loss for the year	-	-	-	(1,019)	(1,019)
At 31 March 2004	1,435	285	2,362	(4,282)	(200)

20. Capital commitments

As at 31 March 2004 contracted capital commitments were £22,000 (2003: £81,000).

21. Operating lease commitments

At 31 March 2004 the company had commitments under operating leases to make payments in the forthcoming period under agreements expiring as follows:

	31 March 2004		31 March 2003	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Within one year	82	152	77	262
Within two to five years	62	140	180	167
	144	292	257	429

Notes to the financial statements

at 31 March 2004

22. Pensions

The company is a participating employer in the Pilkington's Tiles Group's defined benefit pension scheme, which is funded by the payment of contributions to a separately administered fund. The pension benefits for the company's employees are provided within the group scheme with company contributions being based on pension costs across the group as a whole. As such the company is unable to identify its share of the underlying assets and liabilities.

Contributions are based on pension costs of the group as a whole and are determined with the advice of an independent qualified actuary on the basis of triennial valuations using the projected unit method. The group scheme also includes a section for a defined contribution scheme.

Pension costs are assessed on the advice of independent qualified actuaries.

The scheme has defined benefit and money purchase sections. The defined benefit section was closed to new accruals from 1 September 2002 and all benefits became deferred in nature, increasing in line with statutory revaluation. Following the closure of the final salary scheme, the Company has agreed to contribute £262,000 per annum to the scheme to clear the past service deficit. This amount will increase each year in line with RPI plus 1%. The Company will also meet the costs of administering the scheme. The money purchase section is open to new members.

The total pension cost due by the company during the year was £489,000 (2003: £466,000). No contributions were due to the scheme at the year end (2003: Nil).

In accordance with FRS 17, the following information relates to the Pilkington's Tiles Group's scheme at 31 March 2004:

	£'000 2004	£'000 2003
Fair value of scheme assets	17,704	14,609
Present value of scheme liabilities	(24,608)	(24,919)
Scheme deficit	(6,904)	(10,310)

Following the sale of the company to Surface Coatings Limited in May 2004, the scheme's participating employers are now Pilkington's Tiles Limited and Quiligotti Access Flooring Limited. These companies continue to fund the final salary deficit and the money purchase scheme.

The Pilkington's Tiles Pension Scheme also includes a section for a defined contribution pension scheme. The assets of the schemes are held separately from those of the Group in independently administered funds. Contributions to the defined contribution section are charged to the profit and loss account as they fall due.

23. Ultimate parent company

The company's ultimate parent company and controlling party, Surface Coatings Limited is registered in England and Wales.

The only group of which Pilkington's Tiles Limited is a member and for which group financial statements are drawn up is that headed by Surface Coatings Limited.

As a subsidiary undertaking of Surface Coatings Limited, the company has taken advantage of the exemption in FRS8 "Related Party Disclosures" not to disclose transactions with other members of the group headed by Surface Coatings Limited.

Notes to the financial statements

at 31 March 2004

24. Post Balance Sheet Events

On 25 May 2004 the company sold freehold land and buildings at Hamworthy in Poole Dorset to its then parent company Pilkington's Tiles Group Plc for £4.75m, being the open market value at that date, realising a profit on disposal of £1.5m.

On 26 May 2004, in order to simplify the Group Financial structure, the majority of the group's intercompany balances were waived. This resulted in a credit to the profit and loss reserve of £9,677,853 which is tax neutral.

On 28 May 2004 Pilkington's Tiles Group Plc sold its investment in Pilkington's Tiles Limited to Surface Coatings Limited. On the same day Surface Coatings Limited subscribed for £1.9m of cash into new shares in Pilkington's Tiles Limited increasing the balance sheet by a further £1.9m.

On 3 June 2004 the company transferred the freehold land and buildings at Clifton Junction for £1.6m to its parent company Surface Coatings Limited in settlement of an interim dividend.