

SPEAR & JACKSON GARDEN PRODUCTS LIMITED

Report and Accounts

30 September 2004



Spear & Jackson Garden Products Limited

Registered No. 901740

DIRECTORS

P J Dyson
W Fletcher
P J Moore
James Neill Holdings Limited

SECRETARY

W Fletcher

AUDITORS

Chantrey Vellacott DFK LLP
Russell Square House
10-12 Russell Square
London WC1B 5LF

BANKERS

HSBC Bank plc
17 Church Street
Sheffield S1 1HH

SOLICITORS

hlw
Princess House
122 Queen Street
Sheffield S1 2DW

REGISTERED OFFICE

Atlas Way
Atlas North
Sheffield S4 7QQ

Spear & Jackson Garden Products Limited

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 30 September 2004.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activity of the company continues to be the manufacture and sale of garden, agricultural and contractors' hand tools, woodsaws and builders' tools.

Neill Tools Limited continues to act on behalf of Spear & Jackson Garden Products Limited for the purposes of invoicing customers, collecting debts and paying creditors and expenses.

RESULTS AND DIVIDENDS

The loss on ordinary activities before interest and taxation for the year was £995,000 (2003 - £1,344,000 after prior year adjustment). After charging interest and taxation, the loss for the financial year amounted to £1,086,000 (2003 - £1,415,000 after prior year adjustment). No dividend can be paid (2003 - £nil).

The company's results again showed an improvement over the previous year despite highly competitive trading conditions and continuing soft demand in its principal markets. The directors believe, however, that, following the cost reduction programmes and restructuring initiatives implemented in previous years, and further plant reorganisations completed in the year ended 30 September 2005, the company is well positioned to benefit from upturns in these markets in future years.

DIRECTORS AND THEIR INTERESTS

The directors of the company during the year were:

W Fletcher
James Neill Holdings Limited
P J Moore (appointed 20 April 2004)
D P Crowley (removed on 20 April 2004)
S and J Acquisitions Corp. (removed on 29 April 2004)

P J Dyson was appointed as a director on 21 December 2004

James Neill Holdings Limited is the parent undertaking of the company's immediate holding company Spear & Jackson Holdings Limited.

The entire issued share capital of Spear & Jackson plc, the immediate parent undertaking of James Neill Holdings Limited, is held by S and J Acquisitions Corp., a company incorporated in the United States of America whose own parent undertaking is Spear & Jackson, Inc., a company which is also registered in the United States of America. In addition to its shareholding in Spear & Jackson plc, S and J Acquisitions Corp. also owns the entire issued share capital of Bowers Group plc, a fellow subsidiary undertaking of Spear & Jackson plc. As discussed in Events Since the Balance Sheet Date, below, with effect from 15 February 2005 61.8% of the common stock of Spear & Jackson, Inc. is now owned by Jacuzzi Brands, Inc., a company incorporated in the United States of America.

Interests in Spear & Jackson, Inc., the company's ultimate parent undertaking, Spear & Jackson plc, the company's ultimate UK parent undertaking and Bowers Group plc, by directors of Spear & Jackson Garden Products Limited who are also directors of Spear & Jackson, Inc., Spear & Jackson plc and Bowers Group plc, are disclosed in the accounts of those companies.

No directors have any other interests in the shares of group companies.

Spear & Jackson Garden Products Limited

DIRECTORS' REPORT

EVENTS SINCE THE BALANCE SHEET DATE

On 28 January 2005, Spear & Jackson Garden Products Limited sold part of its industrial site at St. Paul's Road, Wednesbury for £2,800,000. The profit on sale was approximately £1,573,000 and reorganisation costs of circa £377,000 are expected to be incurred in connection with the consolidation of the current manufacturing operation into the retained element of the site. The costs principally comprise factory refurbishment, factory reorganisation and departmental relocations within the site. In June 2005 the company also announced the closure of part of its manufacturing operations on that site. It is anticipated that the closure costs, principally relating to redundancy and other severance payments, will amount to approximately £148,000.

As disclosed in the Director's Report for the year ended 30 September 2003, the ultimate parent undertaking of Spear & Jackson Garden Products Limited, Spear & Jackson, Inc. ("S&J"), was named defendant, together with its former Chief Executive Officer and principal shareholder, Dennis Crowley, and others, in a complaint filed by the Securities and Exchange Commission ("SEC") in the US District Court for the Southern District of Florida. Following extensive settlement negotiations with both the SEC and Mr. Crowley, S&J reached a resolution with both parties. Under the settlement terms Mr. Crowley signed a Consent to Final Judgement without admitting or denying the allegations included in the complaint, which required a disgorgement payment of \$3,765,777 plus prejudgement interest of \$304,104 as well as the payment of a \$2,000,000 civil penalty. Additionally, S&J entered into a stock purchase agreement with Mr. Crowley in which S&J acquired 6,005,561 of its common shares from him for \$100. As a result of the stock purchase, the stockholders of S&J have had their percentage stock interest increase correspondingly. Jacuzzi Brands, Inc. ("Jacuzzi"), which is a beneficial owner of 3,543,281 shares of common stock, through its wholly owned subsidiary, USI American Holdings, Inc., has had its interest in S&J increase to approximately 61.8% of the outstanding common stock.

On 11 April 2005, Jacuzzi agreed to the termination of a previous letter agreement, dated 6 September 2002, which supplemented a stockholder's agreement of the same date. The letter agreement required Jacuzzi to vote a substantial portion of its voting capital stock in S&J in proportion to the vote of S&J's other stockholders. At the time the letter agreement was executed, Jacuzzi was a principal but a minority stockholder. As explained above, with the recent return to the capital of S&J of the majority stockholder interest, Jacuzzi now holds a majority stockholder interest in S&J, and the continuation of the letter agreement was no longer considered necessary for the fulfilment of its original intent. Jacuzzi provided a general release to S&J and its affiliates excepting Mr. Crowley and his spouse.

On 21 April 2005, Jacuzzi adopted a plan of disposal of the common stock of S&J under which Jacuzzi intends to: investigate the strategic alternatives with respect to the sale of the common stock held by them; take further actions as will result in Jacuzzi disposing of the common stock within a one-year period; and engage investment, banking, legal and other advisors as necessary to assist the disposal of the common stock of S&J. Jacuzzi may dispose of its common stock in one or more transactions of all or a portion of their holding in the open market, in privately negotiated transactions or otherwise.

A number of class action lawsuits has been initiated in the U.S. District Court for the Southern District of Florida by stockholders of S&J against S&J, S&J's former independent auditor, Sherb & Co., and certain directors and officers, including Mr. Dennis Crowley, the then Chief Executive Officer/Chairman, and Mr. William Fletcher, the then Chief Financial Officer, and now acting Chief Executive Officer. These suits allege essentially the same claims as those of the SEC suit referred to above. Lead Counsel has now been appointed and an amended consolidated complaint has been filed. S&J and the other defendants have filed a motion to dismiss the class action complaint and are currently awaiting the court's determination. At this time it is not possible to assess the effect of these actions, if any, on the finances and operations of S&J and its subsidiary undertakings

Spear & Jackson Garden Products Limited

DIRECTORS' REPORT

EVENTS SINCE THE BALANCE SHEET DATE (continued)

In addition to this class action, on 6 September 2005 S&J was served with a shareholder derivative complaint, filed on 1 June 2004 in the Circuit Court for Palm Beach County, Florida. The suit names, in addition to S&J, which is a nominal defendant, present and former directors of S&J and Sherb & Co LLP, former auditors, as defendants. The suit contains essentially the same factual allegations as both the SEC suit, and the series of class actions claims referred to above but alleges state law claims of breaches of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, unjust enrichment and lack of reasonable care by various or all of the defendants. S&J is currently evaluating the complaint and will file its response at the appropriate time.

As explained in note 20 to these financial statements, "Pension Commitments", the actuarial advisors to the UK pension plan ("the Plan") of which Spear & Jackson Garden Products Limited is a member company, carried out an actuarial valuation of the Plan as at 31 December 2004. This valuation showed an increase in the Plan's deficit compared to that calculated in the last actuarial valuation performed at 5 April 2002. Following discussions between James Neill Holdings Limited ("JNH"), the Plan's sponsoring employer, and the Trustees of the Plan, it was agreed that JNH would make a special contribution to the Plan of £4,000,000. £2,000,000 was paid in June 2005 and the remaining £2,000,000 was paid in September 2005. The special contribution will be allocated pro rata to the member companies of the Plan and any Plan deficit attributable to Spear & Jackson Garden Products Limited will be correspondingly reduced. Also, from May 2005, the total annual employer pension contributions increased from £1,500,000 to £1,900,000 and Spear & Jackson Garden Products Limited's share of this pension cost will increase proportionately.

AUDITORS

Chantrey Vellacott DFK LLP, successors to Chantrey Vellacott DFK, seek election as auditors at the forthcoming AGM.

By order of the Board



W Fletcher
Secretary

24 October 2005

Spear & Jackson Garden Products Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts 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 accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the accounts.

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 accounts 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.

SPEAR & JACKSON GARDEN PRODUCTS LIMITED

Independent Auditors' Report to the Shareholders of Spear & Jackson Garden Products Limited

We have audited the financial statements of Spear & Jackson Garden Products Limited for the year ended 30 September 2004 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Statement of Historical Cost Profits and Losses and related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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



Chantrey Vellacott DFK

SPEAR & JACKSON GARDEN PRODUCTS LIMITED

Independent Auditors' Report to the Shareholders of Spear & Jackson Garden Products Limited (continued)

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.

Going Concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 of the financial statements concerning the company's abilities to continue trading. The financial statements have been prepared on the going concern basis, the validity of which depends on the future financing support of its ultimate UK parent undertaking. Our opinion is not qualified in respect of this matter.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 30 September 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chantrey Vellacott DFK LLP
CHANTREY VELLACOTT DFK LLP

Chartered Accountants
Registered Auditors

LONDON

27 October 2005

Spear & Jackson Garden Products Limited

PROFIT AND LOSS ACCOUNT for the year ended 30 September 2004

		2004	2003
	Notes	£000	<i>As restated</i> £000
TURNOVER	2	14,290	13,098
LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION	3	(995)	(1,344)
Interest payable	6	(91)	(71)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,086)	(1,415)
Taxation	7	-	-
LOSS FOR THE FINANCIAL YEAR	15	(1,086)	(1,415)

Movements in reserves are set out in note 15 to the accounts.

There are no recognised gains or losses other than the loss for the financial year.

There is no difference between the loss on ordinary activities before taxation and the loss for the financial year, as stated above, and the historical cost equivalents and, therefore, no separate note of historical cost profits and losses has been prepared.

The accompanying notes are an integral part of this profit and loss account.

Spear & Jackson Garden Products Limited

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 30 September 2004

	2004	2003
	<i>As restated</i>	
	£000	£000
Loss for the financial year	(1,086)	(1,415)
TOTAL RECOGNISED LOSSES RELATING TO THE YEAR	(1,086)	(1,415)
Prior year adjustment (note 17)	(5,642)	-
TOTAL RECOGNISED LOSSES SINCE THE LAST ANNUAL REPORT	(6,728)	(1,415)

The accompanying notes are an integral part of this statement.

Spear & Jackson Garden Products Limited

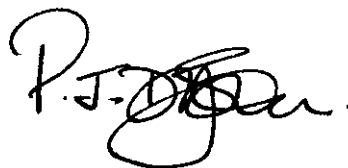
BALANCE SHEET at 30 September 2004

	Notes	2004 £000	2003 <i>As restated</i> £000
FIXED ASSETS			
Tangible assets	8	2,243	466
CURRENT ASSETS			
Stocks	9	3,128	3,725
Debtors	10	1,596	2,944
		4,724	6,669
CREDITORS: amounts falling due within one year	11	18,529	17,600
NET CURRENT LIABILITIES		(13,805)	(10,931)
TOTAL ASSETS LESS CURRENT LIABILITIES		(11,562)	(10,465)
CREDITORS: amounts falling due after more than one year	12	11	22
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	13	-	-
NET LIABILITIES		(11,573)	(10,487)
CAPITAL AND RESERVES			
Called up share capital	14	500	500
Profit and loss account	15	(12,073)	(10,987)
SHAREHOLDERS' FUNDS - EQUITY INTERESTS		(11,573)	(10,487)



W. Fletcher
Director

24 October 2005



P J Dyson
Director

24 October 2005

The accompanying notes are an integral part of this balance sheet.

Spear & Jackson Garden Products Limited

NOTES TO THE ACCOUNTS

at 30 September 2004

1. ACCOUNTING POLICIES

Fundamental Accounting Concept

The accounts are prepared on the going concern basis as the company's ultimate UK parent undertaking has agreed that it will continue to provide financial support to this company to enable it to meet its liabilities as they fall due.

Changes in accounting policies

The Company has adopted Financial Reporting Standard ("FRS") 17, 'Retirement Benefits' in full for the year ended 30 September 2004. The disclosures required by this standard are presented in note 20 to the financial statements. The impact of adopting this standard has been reflected throughout the financial statements and prior year comparatives have been restated where appropriate. Details of the effect of the prior year adjustment are given in note 17.

Basis of preparation

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

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost less estimated residual value of each asset, over its expected useful life, as follows:

Freehold buildings	-	over 50 years
Plant and machinery	-	over 1 to 15 years
Motor vehicles	-	25% per annum on a reducing balance basis

Where depreciation charges are increased following a revaluation, an amount equal to such an increase is transferred annually from the revaluation reserve to the profit and loss account as a movement on reserves.

All fixed assets are written down to their recoverable amount in the event that any impairment review carried out in accordance with FRS11 indicates that the recoverable amount is less than the carrying value.

Stocks and work in progress

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, as follows:

Raw materials and consumables	-	purchase cost on a first-in first-out basis
Work in progress and finished goods	-	cost of direct materials and labour plus attributable overheads based on the normal level of activity

Net realisable value is based on estimated selling price less further cost expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving, or defective items where appropriate.

Spear & Jackson Garden Products Limited

NOTES TO THE ACCOUNTS

at 30 September 2004

1. ACCOUNTING POLICIES (continued)

Deferred taxation (continued)

In accordance with FRS19 provision for deferred taxation is made in full on all timing differences that have originated but not reversed at the balance sheet date. Deferred tax assets are regarded as recoverable, and therefore recognised, only when it is regarded as more likely than not that there will be sufficient future taxable profits from which the reversal of the underlying timing differences can be deducted. Deferred taxation is measured at the average tax rates 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 enabled or substantially enacted by the balance sheet date. Deferred taxation is measured on a non-discounted basis.

Advance corporation tax, which is expected to be recoverable in the future, is deducted from the deferred taxation balance.

Pension benefits

The company is a member of a group of defined benefit pension scheme ("the Plan") operated by James Neill Holdings Limited. The company has adopted FRS 17, 'Retirement Benefits' in full for the year ended 30 September 2004. Previously the company accounted for pensions in accordance with Statement of Standard Accounting Practice ("SSAP") 24, with phased transitional FRS 17 disclosures detailed in the notes to the accounts.

The company is unable to identify its share of the underlying assets and liabilities of the Plan on a consistent and reasonable basis for the purpose of FRS 17 as it participates in the Plan with other group companies. Each participating employer is exposed to actuarial risks associated with the current and former employees of the other employers who are members of the Plan. The pension cost to the company under FRS 17 as included in these financial statements is therefore the contributions paid to the scheme in the year.

Government grants

Government grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet with a corresponding liability included under creditors. The assets are depreciated over their useful lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital payments outstanding.

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

Cash flow statement

The company is a wholly owned subsidiary undertaking of Spear & Jackson plc, a company registered in England. Spear & Jackson plc prepares consolidated accounts which include a consolidated cash flow statement dealing with the cash flows of the group. Spear & Jackson Garden Products Limited is therefore not required to prepare a cash flow statement for inclusion in its own accounts.

Spear & Jackson Garden Products Limited

NOTES TO THE ACCOUNTS

at 30 September 2004

2. TURNOVER

Turnover, which is stated net of value added tax, represents the amounts derived from the provision of goods and services which fall within the company's ordinary activities. Turnover is attributable to one continuing activity, the manufacture and sale of garden, agricultural and contractors' hand tools, woodsaws and builders' tools.

An analysis of turnover by geographical market is as follows:

	2004 £000	2003 £000
United Kingdom	12,025	10,549
Other EC countries	1,098	1,372
Africa	85	26
North and South America	490	530
Australasia	433	294
Rest of World	159	327
	<u>14,290</u>	<u>13,098</u>

3. LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION

The loss on ordinary activities before interest and taxation comprises:

	2004 £000	2003 <i>As restated</i> £000
Turnover	14,290	13,098
Change in stocks of finished goods and work in progress	(583)	1,086
	<u>13,707</u>	<u>14,184</u>
Government grant release	11	11
Other operating income	50	50
	<u>13,768</u>	<u>14,245</u>
Raw materials and consumables	5,739	6,167
Staff costs (note 5)	2,773	3,398
Depreciation of owned fixed assets	230	207
Auditors' remuneration	6	6
Operating lease rentals - plant and machinery	125	69
Other operating charges	5,890	5,742
	<u>14,763</u>	<u>15,589</u>
Loss on ordinary activities before interest and taxation	<u>(995)</u>	<u>(1,344)</u>

Spear & Jackson Garden Products Limited

NOTES TO THE ACCOUNTS

at 30 September 2004

4. DIRECTORS' REMUNERATION

No remuneration was paid to the directors of the company by Spear & Jackson Garden Products Limited (2003 - £nil). The emoluments of directors of the company who are also directors of Spear & Jackson plc are disclosed in the accounts of that company.

5. STAFF COSTS

	2004	2003
		<i>As restated</i>
	£000	£000
Wages and salaries	2,302	2,823
Social security costs	149	188
Other pension costs (note a)	322	387
	<u>2,773</u>	<u>3,398</u>

(a) The company has adopted FRS 17 'Retirement Benefits' in full for the year ended 30 September 2004. The disclosures required by this standard are presented in note 20 to the financial statements. Previously the company accounted for pensions in accordance with SSAP 24, with phased transitional FRS 17 disclosures detailed in the notes to the accounts. The impact of adopting this standard has been reflected throughout the financial statements and prior year comparatives have been restated where appropriate. Details of the effect of the prior year adjustment are given in note 17.

The average number of employees (excluding directors) during the year was:

	2004	2003
	No.	No.
Manufacturing	122	146
Office and management	13	15
	<u>135</u>	<u>161</u>

6. INTEREST PAYABLE

	2004	2003
	£000	£000
Group loan stock	91	71

Spear & Jackson Garden Products Limited

NOTES TO THE ACCOUNTS

at 30 September 2004

7. TAXATION

No taxation charge or credit arises in the year.

The current taxation assessed for the year differs from the standard rate of corporation tax in the UK. The differences are as follows:

	2004	2003
		<i>As restated</i>
	£000	£000
Tax on loss on ordinary activities before taxation at the UK statutory rate of 30%	(326)	(425)
Group relief surrendered for which no payment will be received	459	475
Permanently disallowable items	4	(3)
(Excess of)/shortfall in capital allowances over qualifying depreciation	(15)	62
Annual effect of prior year special pension contribution	(115)	(115)
(Release of)/increase in general provisions	(7)	6
Current taxation as reported	-	-

Potential deferred tax assets of £506,000 (2003 - £754,000), relating to depreciation in excess of capital allowances, and other timing differences have not been recognised in these accounts. There is insufficient evidence that these assets will be recoverable within the meaning of FRS 19 "Deferred Taxation". Similarly, trading losses carried forward of approximately £1,632,000 (2003 - £1,779,000), which are available for relief against future trading profits, have not been recognised in these accounts.

Additionally, the company has advance corporation tax of £1,005,000 (2003 - £1,005,000) available for offset against future taxation liabilities.

8. TANGIBLE FIXED ASSETS

	<i>Freehold land and buildings</i>	<i>Plant and equipment</i>	<i>Total</i>
	£'000	£'000	£'000
Cost or valuation:			
At 1 October 2003	-	4,793	4,793
Additions	1,946	61	2,007
At 30 September 2004	1,946	4,854	6,800
Depreciation:			
At 1 October 2003	-	4,327	4,327
Charge for the year	44	186	230
At 30 September 2004	44	4,513	4,557
Net book value:			
At 30 September 2004	1,902	341	2,243
At 30 September 2003	-	466	466

Spear & Jackson Garden Products Limited

NOTES TO THE ACCOUNTS at 30 September 2004

9. STOCKS

	2004 £000	2003 £000
Raw materials and consumables	889	903
Work in progress	834	852
Finished goods	1,405	1,970
	<u>3,128</u>	<u>3,725</u>

10. DEBTORS

	2004 £000	2003 <i>As restated</i> £000
Amounts falling due within one year: Amounts owed by group undertakings	1,596	2,944
	<u>1,596</u>	<u>2,944</u>

11. CREDITORS: amounts falling due within one year

	2004 £000	2003 £000
Loan stock	1,500	1,500
Amounts owed to other group undertakings	16,239	15,391
Amounts owed to parent undertaking	779	698
Deferred income	11	11
	<u>18,529</u>	<u>17,600</u>

The loan stock consists of £1,500,000 unsecured loan stock, issued to Spear & Jackson Holdings Limited, which bears interest at 1.25% above the bank base rate. The loan stock is redeemable on demand.

12. CREDITORS: amounts falling due after more than one year

	2004 £000	2003 £000
Deferred income	11	22
	<u>11</u>	<u>22</u>

Spear & Jackson Garden Products Limited

NOTES TO THE ACCOUNTS at 30 September 2004

13. DEFERRED TAXATION

The movement in deferred taxation is as follows:

	<i>Provisions £000</i>
At 1 October 2003 as previously stated	150
Prior year adjustment	(150)
	<hr/>
At 1 October 2003 as restated, and at 30 September 2004	-
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The following deferred tax assets have not been recognised in the accounts:

	<i>2004 £000</i>	<i>2003 As restated £000</i>
Depreciation in advance of capital allowances	133	259
Other timing differences relating to:		
Current assets and liabilities	373	381
Special pension contribution	-	114
	<hr/>	<hr/>
	506	754
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There is insufficient evidence that these assets will be recoverable within the meaning of FRS 19 "Deferred Taxation".

Similarly, trading losses carried forward of approximately £1,632,000 (2003 - £1,779,000), which are available for relief against future trading profits, have not been recognised in these accounts.

Additionally, the company has advance corporation tax of £1,005,000 (2003 - £1,005,000) available for offset against future taxation liabilities.

14. CALLED UP SHARE CAPITAL

	<i>Authorised</i>		<i>Allotted, called up and fully paid</i>	
	<i>2004 No.</i>	<i>2003 No.</i>	<i>2004 £000</i>	<i>2003 £000</i>
Ordinary shares of £1 each	500,000	500,000	500	500
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Spear & Jackson Garden Products Limited

NOTES TO THE ACCOUNTS at 30 September 2004

15. RESERVES

	<i>Profit and loss account £000</i>
At 1 October 2003 as originally stated	(5,345)
Prior year adjustment	(5,642)
At 1 October 2003 as restated	(10,987)
Loss for the year	(1,086)
At 30 September 2004	(12,073)

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<i>2004 £000</i>	<i>2003 As restated £000</i>
Loss for the financial year	(1,086)	(1,415)
Shareholders' funds at 1 October 2003 (originally £4,845 before prior year adjustments of £5,642)	(10,487)	(9,072)
Shareholders' funds at 30 September 2004	(11,573)	(10,487)

17. PRIOR YEAR ADJUSTMENT

The company has adopted FRS 17, 'Retirement Benefits' in full for the year ended 30 September 2004. The effect of adopting this on the current and comparative amounts can be summarised as follows:

	<i>2004 £000</i>	<i>2003 £000</i>
Profit and loss account:		
Decrease in pension costs	440	367
Decrease (increase) in deferred taxation	58	(7)
Decrease in loss for the year	498	360
Balance sheet:		
Decrease in pension prepayment due after more than one year (SSAP 24 debtor)	(5,352)	(5,792)
Decrease in deferred taxation creditor	208	150
Decrease in net assets	(5,144)	(5,642)

Spear & Jackson Garden Products Limited

NOTES TO THE ACCOUNTS

at 30 September 2004

17. PRIOR YEAR ADJUSTMENT (continued)

Reserves:

Decrease in profit and loss reserves brought forward	(5,642)	(6,002)
Decrease in loss in the financial year	498	360
	<u>(5,144)</u>	<u>(5,642)</u>

18. OBLIGATIONS UNDER OPERATING LEASES

At 30 September 2004 the company had annual commitments under non-cancellable operating leases as set out below:

	<i>Plant, motor vehicles and machinery</i>	
	<i>2004</i>	<i>2003</i>
	<i>£000</i>	<i>£000</i>
Operating leases which expire:		
Between two to five years	60	60

19. CONTINGENT LIABILITIES

Borrowings under the bank overdraft facility of Spear & Jackson Garden Products Limited are secured by a mortgage debenture with the HSBC Bank plc, incorporating fixed and floating charges on the whole undertaking and assets of the company. The company's UK bank accounts with the HSBC Bank plc, together with those of certain other fellow UK subsidiaries within the Spear & Jackson, Inc. group form a pooled fund. As part of this arrangement the company has entered into a cross guarantee with the HSBC Bank plc to guarantee any bank overdrafts of the undertakings within the pool. At 30 September 2004 the extent of this guarantee was £11,409,000 (2003 - £16,285,000). The net pooled position at 30 September 2004 was £928,000 (2003 - £1,085,000).

As detailed in note 24, a series of class action claims and a shareholder derivative complaint have been instigated against, inter alios, the company's ultimate US parent undertaking, Spear & Jackson, Inc., members of that company's current board of directors and Spear & Jackson, Inc.'s former auditors. At this time it is not possible to assess the effect of these actions, if any, on the finances and operations of Spear & Jackson Garden Products Limited.

20. PENSION COMMITMENTS

The company is a member of a group pension scheme ("the Plan") operated by James Neill Holdings Limited. The Plan is a defined benefit scheme, the assets of which are held in trustee administered funds separate from those of the group. The Plan is not open to new members.

The company has adopted FRS 17 'Retirement Benefits' in full for the year ended 30 September 2004. In the financial statements for the year ended 30 September 2003, the company originally accounted for retirement benefits under SSAP 24 and gave disclosures under the FRS 17 transitional arrangements.

Spear & Jackson Garden Products Limited

NOTES TO THE ACCOUNTS

at 30 September 2004

20. PENSION COMMITMENTS (continued)

The company is unable to identify its share of the underlying assets and liabilities of the Plan on a consistent and reasonable basis for the purpose of FRS 17 as it participates in the Plan with other group companies. Each participating employer is exposed to actuarial risks associated with the current and former employees who are members of the Plan. The pension cost to the company under FRS 17 is therefore the contributions payable to the Plan in the year.

The pension cost charge, which, as described above, represents annual contributions payable by the company to the Plan, amounted to £322,000 (2003 - £387,000). If the company had continued to account for retirement benefits under SSAP 24, the total charge would have been £762,000 (2003 - £754,000).

A full actuarial valuation of the Plan was performed by Hewitt, Bacon & Woodrow as at 5 April 2002, using the projected unit method. This actuarial valuation revealed that the market value of the assets was sufficient to cover 94% of the liabilities of the Plan. On the advice of the Plan's actuary the contributions of the company were changed from 24.8% to 21.2% of pensionable pay on 1 November 2002.

This rate included an allowance to eliminate the deficit in the Plan. Contributions at this rate were paid until May 2005. Full details of this valuation are given in the accounts of Spear & Jackson plc. Subsequent to the year end the Plan's actuarial advisors carried out an actuarial valuation of the Plan as at 31 December 2004. This valuation showed an increase in the Plan's deficit compared to that calculated in the actuarial valuation performed at 5 April 2002. Following discussions between James Neill Holdings Limited, the sponsoring employer ("JNH"), and the trustees of the Plan it was agreed that JNH would make a special contribution to the Plan of £4,000,000. £2,000,000 was paid in June 2005 and a further £2,000,000 was paid in September 2005. The special contribution will be allocated pro rata to the member companies of the Plan and any Plan deficit attributable to Spear & Jackson Garden Products Limited will be correspondingly reduced. Also, from May 2005, the total annual employer pension contributions to the Plan increased from £1,500,000 to £1,900,000. Contributions will continue at this rate, subject to certain conditions, until April 2007. Spear & Jackson Garden Products Limited's share of this pension cost will increase proportionately.

As mentioned above, the company is unable to identify its share of the underlying assets and liabilities of the Plan on a consistent and reasonable basis for FRS 17. Full disclosure of the pension liability under FRS 17 is given in the consolidated financial statements of Spear & Jackson plc the company's ultimate UK parent undertaking.

The financial assumptions used in calculating the liabilities for the Plan as at 30 September 2004, 2003 and 2002 under FRS 17 are also disclosed in full in the consolidated financial statements of Spear & Jackson plc. In summary these are as follows:

	2004	2003	2002
• Discount rate for assessing plan liabilities	5.50%	5.50%	5.75%
• Rate of increase in salaries	2.80%	2.50%	3.50%
• Rate of increase for pensions in payment			
- Pre 88 GMPs	0.00%	0.00%	0.00%
- Post 88 GMPs	2.40%	2.00%	1.85%
- Excess over GMP (fixed 5% increases)	5.00%	5.00%	5.00%
- Excess over GMP (increase in line with LPI)	2.75%	2.50%	2.50%
• Inflation rate assumption	2.80%	2.50%	2.25%

Spear & Jackson Garden Products Limited

NOTES TO THE ACCOUNTS

at 30 September 2004

20. PENSION COMMITMENTS (continued)

The fair value of the assets held by the Plan as at 30 September 2004, 2003 and 2002 together with the liabilities at those dates calculated on the above bases are as follows:

	Fair Value at 30/09/2004 £ million	Fair Value at 30/09/2003 £ million	Fair Value at 30/09/2002 £ million
Total market value of assets	78.6	75.4	70.9
Present value of plan liabilities	(99.6)	(92.9)	(93.3)
Deficit in the scheme	(21.0)	(17.5)	(22.4)
Related deferred tax asset	6.3	5.3	6.7
Net pension liability	(14.7)	(12.2)	(15.7)

21. CAPITAL COMMITMENTS

	2004 £000	2003 £000
Contracted for but not provided	-	-

22. PARENT UNDERTAKING AND CONTROLLING PARTY

The ultimate parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the company is a member is Spear & Jackson, Inc., a company registered in the United States of America. The parent undertaking of the smallest group for which group accounts are prepared is Spear & Jackson plc, a company registered in England. As discussed below in note 24, Post Balance Sheet Events, with effect from 15 February 2005, 61.8% of the common stock of Spear & Jackson, Inc. is now owned by Jacuzzi Brands, Inc., a company incorporated in the United States of America.

23. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption under FRS 8 not to disclose transactions with other group companies.

24. POST BALANCE SHEET EVENTS

On 28 January 2005, Spear & Jackson Garden Products Limited sold part of its industrial site at St. Paul's Road, Wednesbury for £2,800,000. The profit on sale was approximately £1,573,000 and reorganisation costs of circa £377,000 are expected to be incurred in connection with the consolidation of the current manufacturing operation into the retained element of the site. The costs principally comprise factory refurbishment, factory reorganisation and departmental relocations within the site. In June 2005 the company also announced the closure of part of its manufacturing operations on that site. It is anticipated that the closure costs, principally relating to redundancy and other severance payments, will amount to approximately £148,000.

As disclosed in the Director's Report for the year ended 30 September 2003, the ultimate parent undertaking of Spear & Jackson Garden Products Limited, Spear & Jackson, Inc. ("S&J"), was named defendant, together with its former Chief Executive Officer and principal shareholder, Dennis Crowley, and others, in a complaint filed by the Securities and Exchange Commission ("SEC") in the US District Court for the Southern District of Florida. Following extensive settlement negotiations with both the SEC and Mr. Crowley, S&J reached a resolution with both parties. Under the settlement terms Mr. Crowley

Spear & Jackson Garden Products Limited

NOTES TO THE ACCOUNTS

at 30 September 2004

24. POST BALANCE SHEET EVENTS (continued)

signed a Consent to Final Judgement without admitting or denying the allegations included in the complaint, which required a disgorgement payment of \$3,765,777 plus prejudgement interest of \$304,104 as well as the payment of a \$2,000,000 civil penalty. Additionally, S&J entered into a stock purchase agreement with Mr. Crowley in which S&J acquired 6,005,561 of its common shares from him for \$100. As a result of the stock purchase, the stockholders of S&J have had their percentage stock interest increase correspondingly. Jacuzzi Brands, Inc. ("Jacuzzi"), which is a beneficial owner of 3,543,281 shares of common stock through its wholly owned subsidiary, USI American Holdings, Inc., has had its interest in S&J increase to approximately 61.8% of the outstanding common stock.

On 11 April 2005, Jacuzzi agreed to the termination of a previous letter agreement, dated 6 September 2002, which supplemented a stockholder's agreement of the same date. The letter agreement required Jacuzzi to vote a substantial portion of its voting capital stock in S&J in proportion to the vote of S&J's other stockholders. At the time the letter agreement was executed, Jacuzzi was a principal but a minority stockholder. As explained above, with the recent return to the capital of S&J of the majority stockholder interest, Jacuzzi now holds a majority stockholder interest in S&J, and the continuation of the letter agreement was no longer considered necessary for the fulfilment of its original intent. Jacuzzi provided a general release to S&J and its affiliates excepting Mr. Crowley and his spouse.

On 21 April 2005, Jacuzzi adopted a plan of disposal of the common stock of S&J under which Jacuzzi intends to: investigate the strategic alternatives with respect to the sale of the common stock held by them; take further actions as will result in Jacuzzi disposing of the common stock within a one-year period; and engage investment, banking, legal and other advisors as necessary to assist the disposal of the common stock of S&J. Jacuzzi may dispose of its common stock in one or more transactions of all or a portion of their holding in the open market, in privately negotiated transactions or otherwise.

A number of class action lawsuits has been initiated in the U.S. District Court for the Southern District of Florida by stockholders of S&J against S&J, S&J's former independent auditor, Sherb & Co., and certain directors and officers, including Mr. Dennis Crowley, the then Chief Executive Officer/Chairman, and Mr. William Fletcher, the then Chief Financial Officer, and now acting Chief Executive Officer. These suits allege essentially the same claims as those of the SEC suit referred to above. Lead Counsel has now been appointed and an amended consolidated complaint has been filed. S&J and the other defendants have filed a motion to dismiss the class action complaint and are currently awaiting the court's determination. At this time it is not possible to assess the effect of these actions, if any, on the finances and operations of S&J and its subsidiary undertakings.

In addition to this class action, on 6 September 2005 S&J was served with a shareholder derivative complaint, filed on 1 June 2004 in the Circuit Court for Palm Beach County, Florida. The suit names, in addition to S&J, which is a nominal defendant, present and former directors of S&J and Sherb & Co LLP, former auditors, as defendants. The suit contains essentially the same factual allegations as both the SEC suit, and the series of class actions claims referred to above but alleges state law claims of breaches of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, unjust enrichment and lack of reasonable care by various or all of the defendants. S&J is currently evaluating the complaint and will file its response at the appropriate time.

As explained in note 20 to these financial statements, "Pension Commitments", the actuarial advisors to the UK pension plan ("the Plan") of which Spear & Jackson Garden Products Limited is a member company, carried out an actuarial valuation of the Plan as at 31 December 2004. This valuation showed an increase in the Plan's deficit compared to that calculated in the last actuarial valuation performed at 5 April 2002. Following discussions between James Neill Holdings Limited ("JNH"), the Plan's sponsoring employer, and the Trustees of the Plan, it was agreed that JNH would make a special contribution to the Plan of £4,000,000. £2,000,000 was paid in June 2005 and the remaining £2,000,000 was paid in September 2005. The special contribution will be allocated pro rata to the member companies of the Plan

Spear & Jackson Garden Products Limited

NOTES TO THE ACCOUNTS

at 30 September 2004

24. POST BALANCE SHEET EVENTS (continued)

and any Plan deficit attributable to Spear & Jackson Garden Products Limited will be correspondingly reduced. Also, from May 2005, the total annual employer pension contributions increased from £1,500,000 to £1,900,000 and Spear & Jackson Garden Products Limited's share of this pension cost will increase proportionately.