

Company Registration No. 02711932 (England and Wales)

MORELLI GROUP LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 31 MAY 2006

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MORELLI GROUP LIMITED

DIRECTORS AND ADVISERS

Directors

D Moring
Mrs J Moring
J Moring
Mrs P Moring
C C Laybourn
Mrs J Laybourn
Mrs R R Moring-Hillyer
A J Toms
Mrs L Toms

Secretary

D P Gurney

Company number

02711932

Registered office

Unit 2 Baird Road
Enfield
Middlesex
EN1 1SJ

Registered auditors

Carter Backer Winter
Enterprise House
21 Buckle Street
London
E1 8NN

Business address

Unit 2 Baird Road
Enfield
Middlesex
EN1 1SJ

MORELLI GROUP LIMITED

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MORELLI GROUP LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MAY 2006

The directors present their report and financial statements for the year ended 31 May 2006.

Directors

The following directors have held office since 1 June 2005:

D Moring
Mrs J Moring
J Moring
Mrs P Moring
C C Laybourn
Mrs J Laybourn
Mrs R R Moring-Hillyer
A J Toms
Mrs L Toms

Principal activities and review of the business

The principal activity of the company continued to be that of paint stockists and distributors of automotive refinishing and ancillary products.

The Chairman reported satisfactory results despite competitive trading conditions. On 01 June 2005 the trade of its trading subsidiaries were transferred as a going concern to the Holding Company, Morelli Group Limited. Turnover has remained steady and with the careful control of overheads, profit remains at a satisfactory level.

The group's principal financial instruments comprise bank balances, bank overdrafts, trade debtors, trade creditors, and loans to the group. These serve to provide sufficient funds for the group's operations. For bank balances, the principal liquidity risks are managed by regular review and reconciliation of the account to ensure that the overdraft limits are not breached. The loans comprise bank loans, loans from directors and loans from other related parties. The group manages the liquidity risk by ensuring that there are sufficient funds available to meet any contractual repayments as and when they fall due. The credit and cash flow risks relating to trade debtors are managed by the maintenance of credit control policies and regular monitoring of amounts outstanding. The liquidity risk for trade creditors is managed by the group ensuring that there are sufficient funds available to settle these as and when they fall due. Due to the types of financial instruments used by the group, there is no exposure to price risk.

Results and dividends

The consolidated profit and loss account for the year is set out on page 7.

Post balance sheet events

There were no significant post balance sheet events affecting the company or the group.

Future developments

The directors aim to maintain the management policies which have resulted in the groups growth in recent years and will continue to consolidate, rationalise and expand the groups activities wherever possible.

MORELLI GROUP LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

Directors' interests

The directors' interests in the shares of the company and other group companies were as stated below:

Morelli Group Limited

A Ordinary shares of £ 1 each

	31 May 2006	1 June 2005
D Moring	413,940	413,940
Mrs J Moring	114,410	114,410
J Moring	409,411	409,411
Mrs P Moring	115,622	115,622
C C Laybourn	181,282	181,282
Mrs J Laybourn	344,843	344,843
Mrs R R Moring-Hillyer	395,309	395,309
A J Toms	166,631	166,631
Mrs L Toms	-	-

B Ordinary shares of £ 1 each

	31 May 2006	1 June 2005
D Moring	1,000	1,000
Mrs J Moring	-	-
J Moring	1,000	1,000
Mrs P Moring	-	-
C C Laybourn	1,000	1,000
Mrs J Laybourn	-	-
Mrs R R Moring-Hillyer	1,000	1,000
A J Toms	1,000	1,000
Mrs L Toms	-	-

C Ordinary shares of £ 1 each

	31 May 2006	1 June 2005
D Moring	139,954	139,954
Mrs J Moring	138,481	138,481
J Moring	138,481	138,481
Mrs P Moring	139,954	139,954
C C Laybourn	139,954	139,954
Mrs J Laybourn	139,954	139,954
Mrs R R Moring-Hillyer	279,909	279,909
A J Toms	120,804	120,804
Mrs L Toms	-	-

Morelli & Co (Uxbridge) Limited

Ordinary shares of £ 1 each

	31 May 2006	1 June 2005
D Moring	-	-
J Moring	-	-
C C Laybourn	-	-
A J Toms	-	-
Mrs R R Moring-Hillyer	-	-
Mrs J Laybourn	-	-

MORELLI GROUP LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

Morelli (Equipment) Limited

Ordinary shares of £ 1 each

31 May 2006	1 June 2005
-------------	-------------

J Moring	-	-
C C Laybourn	-	-
A J Toms	-	-
Mrs J Moring	-	-
Mrs L Toms	-	-
D Moring	-	-

Morelli (Central) Limited

Ordinary shares of £ 1 each

31 May 2006	1 June 2005
-------------	-------------

D Moring	-	-
J Moring	-	-
C C Laybourn	-	-
A J Toms	-	-
Mrs R R Moring-Hillyer	-	-

Morelli & Co. (London) Limited

Ordinary shares of £ 1 each

31 May 2006	1 June 2005
-------------	-------------

D Moring	-	-
J Moring	-	-
C C Laybourn	-	-
A J Toms	-	-
Mrs P Moring	-	-

Employee involvement

During the year employees are provided with information on matters of particular concern to them. Regular meetings are held between local management and employees to allow a free flow of information and ideas. All employees are generally made aware of the financial and economic factors affecting the employees of the company.

Disabled persons

The company's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Carter Backer Winter be reappointed as auditors of the company will be put to the Annual General Meeting.

MORELLI GROUP LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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 group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

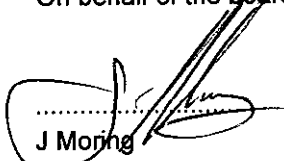
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 the group and 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure to auditor

- (a) so far as the directors are aware, there is no relevant audit information of which the group's auditors are unaware, and
- (b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the group's auditors are aware of that information.

On behalf of the board


J Moring
Director
31/08/06

MORELLI GROUP LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MORELLI GROUP LIMITED

We have audited the financial statements of Morelli Group Limited for the year ended 31 May 2006 set out on pages 7 to 23. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 on page 4 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

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

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and the group'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.

MORELLI GROUP LIMITED

INDEPENDENT AUDITORS' REPORT (CONTINUED) TO THE SHAREHOLDERS OF MORELLI GROUP LIMITED

Opinion

In our opinion the financial statements:

- give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's and the group's affairs as at 31 May 2006 and of the group's profit for the year then ended ;
- the information given in the directors' report is consistent with the financial statements; and
- have been properly prepared in accordance with the Companies Act 1985.



Carter Backer Winter

Chartered Accountants
Registered Auditor

6 September 2006

Enterprise House
21 Buckle Street
London
E1 8NN

MORELLI GROUP LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MAY 2006

	Notes	2006 £	2005 £
Turnover	2		
Continuing operations		-	(824,532)
Acquisitions		33,102,248	-
		<u>33,102,248</u>	<u>(824,532)</u>
Discontinued activities		-	33,152,670
		<u>33,102,248</u>	<u>32,328,138</u>
Turnover	2	33,102,248	32,328,138
Cost of sales		(21,104,447)	(20,518,877)
Gross profit		<u>11,997,801</u>	<u>11,809,261</u>
Administrative expenses		(11,062,087)	(11,160,749)
Other operating income		<u>109,753</u>	<u>59,977</u>
Operating profit	3		
Continuing operations		(4,075,624)	230,079
Acquisitions		5,121,091	-
		<u>1,045,467</u>	<u>230,079</u>
Discontinued activities		-	478,410
		<u>1,045,467</u>	<u>708,489</u>
Share of operating profit in associate		-	11,724
Profit on ordinary activities before interest		<u>1,045,467</u>	<u>720,213</u>
Other interest receivable and similar income		317	506
Interest payable and similar charges	4	(163,843)	(178,727)
Profit on ordinary activities before taxation		<u>881,941</u>	<u>541,992</u>
Tax on profit on ordinary activities	5	(289,602)	(209,712)
Profit on ordinary activities after taxation		<u><u>592,339</u></u>	<u><u>332,280</u></u>

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

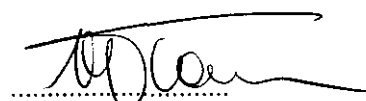
MORELLI GROUP LIMITED

BALANCE SHEETS AS AT 31 MAY 2006

		Group		Company	
		2006	2005	2006	2005
	Notes	£	£	£	£
Fixed assets					
Intangible assets	8	(357,229)	(364,671)	-	-
Tangible assets	9	4,687,296	5,335,362	4,687,296	4,403,516
Investments	10	20,000	20,000	80,522	4,491,327
		<u>4,350,067</u>	<u>4,990,691</u>	<u>4,767,818</u>	<u>8,894,843</u>
Current assets					
Stocks	11	4,553,891	4,531,710	4,553,891	-
Debtors	12	6,172,592	6,271,954	6,226,938	2,770,232
Cash at bank and in hand		215,371	277,776	215,367	500
		<u>10,941,854</u>	<u>11,081,440</u>	<u>10,996,196</u>	<u>2,770,732</u>
Creditors: amounts falling due within one year	13	(6,035,198)	(8,444,988)	(6,087,130)	(6,588,988)
Net current assets		<u>4,906,656</u>	<u>2,636,452</u>	<u>4,909,066</u>	<u>(3,818,256)</u>
Total assets less current liabilities		<u>9,256,723</u>	<u>7,627,143</u>	<u>9,676,884</u>	<u>5,076,587</u>
Creditors: amounts falling due after more than one year	14	(1,464,966)	(200,000)	(1,464,966)	(200,000)
Provisions for liabilities	15	(78,416)	(106,141)	(78,416)	(51,421)
		<u>7,713,341</u>	<u>7,321,002</u>	<u>8,133,502</u>	<u>4,825,166</u>
Capital and reserves					
Called up share capital	17	3,383,939	3,383,939	3,383,939	3,383,939
Share premium account	18	1,336,218	1,336,218	1,336,218	1,336,218
Profit and loss account	18	2,993,184	2,600,845	3,413,345	105,009
Shareholders' funds	19	<u>7,713,341</u>	<u>7,321,002</u>	<u>8,133,502</u>	<u>4,825,166</u>

Approved by the Board and authorised for issue on 31.8.2006 and signed on its behalf by


J Moring
Director


A J Toms
Director

MORELLI GROUP LIMITED

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MAY 2006

	2006		2005	
	£	£	£	£
Net cash inflow from operating activities		1,510,494		381,709
Returns on investments and servicing of finance				
Interest received	317		506	
Interest paid	(163,843)		(177,486)	
Net cash outflow for returns on investments and servicing of finance		(163,526)		(176,980)
Taxation		(196,662)		(79,012)
Capital expenditure and financial investment				
Payments to acquire tangible assets	(496,872)		(674,081)	
Payments to acquire investments	(20,000)		-	
Receipts from sales of tangible assets	856,588		138,570	
Net cash inflow for capital expenditure		339,716		(535,511)
Equity dividends paid		(200,000)		(200,000)
Net cash inflow before management of liquid resources and financing		1,290,022		(609,794)
Financing				
Other new long term loans	393,122		67,053	
Other new short term loans	201,017		-	
Repayment of other long term loans	(235,668)		-	
Net cash inflow from financing		358,471		67,053
Increase in cash in the year		1,648,493		(542,741)

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MAY 2006

1	Reconciliation of operating profit to net cash inflow from operating activities	2006	2005
		£	£
	Operating profit	1,045,467	708,489
	Depreciation of tangible assets	385,513	378,697
	Amortisation of intangible assets	(7,442)	(7,442)
	Profit on disposal of tangible assets	(97,163)	(27,037)
	(Increase)/decrease in stocks	(22,181)	292,505
	Decrease/(increase) in debtors	99,362	(269,042)
	Increase/(decrease) in creditors within one year	106,938	(694,461)
	Net cash inflow from operating activities	1,510,494	381,709

2	Analysis of net debt	1 June 2005	Cash flow	Other non-cash changes	31 May 2006
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	277,776	(62,405)	-	215,371
	Bank overdrafts	(1,721,170)	1,710,898	-	(10,272)
		(1,443,394)	1,648,493	-	205,099
	Debts falling due within one year	(1,012,101)	811,084	-	(201,017)
	Debts falling due after one year	(200,000)	(1,264,966)	-	(1,464,966)
		(1,212,101)	(453,882)	-	(1,665,983)
	Net debt	(2,655,495)	1,194,611	-	(1,460,884)

3	Reconciliation of net cash flow to movement in net debt	2006	2005
		£	£
	Increase/(decrease) in cash in the year	1,648,493	(542,741)
	Cash inflow from increase in debt	(453,882)	(21,116)
	Movement in net debt in the year	1,194,611	(563,857)
	Opening net debt	(2,655,495)	(2,091,638)
	Closing net debt	(1,460,884)	(2,655,495)

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MAY 2006

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), which have been applied consistently (except as otherwise stated).

1.3 Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 31 May 2006. The results of subsidiaries sold or acquired are included in the profit and loss account up to, or from the date control passes. Intra-group sales and profits are eliminated fully on consolidation.

1.4 Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts.

1.5 Goodwill

Acquired goodwill is written off in equal annual instalments over its estimated useful economic life.

1.6 Tangible fixed assets and depreciation

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

Land and buildings freehold	over 50 years
Land and buildings leasehold	over 50 years
Fixtures, fittings & equipment	over 5 to 10 years
Motor vehicles	over 4 years

1.7 Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

1.8 Investments

Fixed asset investments are stated at cost less provision for diminution in value.

1.9 Stock

Stock is valued at the lower of cost and net realisable value.

1.10 Pensions

The Group operates a defined contribution scheme for the benefit of its employees. Contributions payable are charged to the profit and loss account in the year they are payable.

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

1 Accounting policies

(continued)

1.11 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 that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred by the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains or losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as 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 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 enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non discounted basis.

1.12 Foreign currency translation

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

2 Turnover

The total turnover of the group for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

3 Operating profit

	2006 £	2005 £
Operating profit is stated after charging:		
Depreciation of tangible assets	385,513	378,697
Operating lease rentals		
- Plant and machinery	27,537	89,905
- Other assets	279,567	325,778
Auditors' remuneration (company £80,000; 2005: £13,000)	80,000	75,024
and after crediting:		
Rents receivable	90,058	51,847
Profit on disposal of tangible assets	(97,163)	(27,037)
	<u> </u>	<u> </u>
	2006 £	2005 £
Exceptional items		
Amortisation of goodwill	(7,442)	(7,442)
	<u> </u>	<u> </u>

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

4	Interest payable	2006	2005
		£	£
	On bank loans and overdrafts	163,843	124,258
	On loans repayable after 5 years	-	53,601
	On overdue tax	-	208
	Other interest - associate	-	660
		<u>163,843</u>	<u>178,727</u>
5	Taxation	2006	2005
		£	£
	Domestic current year tax		
	U.K. corporation tax	317,327	224,637
	Adjustment for prior years	-	6,875
		<u>317,327</u>	<u>231,512</u>
	Current tax charge		
		-	2,885
	Deferred tax		
	Deferred tax charge/(credit)	(27,725)	(24,685)
		<u>289,602</u>	<u>209,712</u>
	Factors affecting the tax charge for the year		
	Profit on ordinary activities before taxation	<u>881,941</u>	<u>541,992</u>
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2005: 30.00%)	<u>264,582</u>	<u>162,598</u>
	Effects of:		
	Non deductible expenses	53,247	50,078
	Depreciation add back	79,063	113,609
	Capital allowances	(84,777)	(70,506)
	Adjustments to previous periods	-	6,875
	Other tax adjustments	5,212	(28,257)
		<u>(822,556)</u>	<u>92,675</u>
	Current tax charge	<u>(557,974)</u>	<u>255,273</u>

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

6 Profit for the financial year

As permitted by section 230 of the Companies Act 1985, the holding company's profit and loss account has not been included in these financial statements. The profit for the financial year is made up as follows:

	2006 £	2005 £
Holding company's profit for the financial year	3,508,336	38,374

7 Dividends

	2006 £	2005 £
Ordinary interim paid	200,000	-
Ordinary final proposed	-	200,000
	200,000	200,000

8 Intangible fixed assets Group

	Goodwill £
Cost	
At 1 June 2005 & at 31 May 2006	(372,113)
Amortisation	
At 1 June 2005	(7,442)
Charge for the year	(7,442)
At 31 May 2006	(14,884)
Net book value	
At 31 May 2006	(357,229)
At 31 May 2005	(364,671)

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

9 Tangible fixed assets Group

	Land and buildings freehold £	Land and buildings leasehold £	Fixtures, fittings & equipment £	Motor vehicles £	Total £
Cost					
At 1 June 2005	2,147,059	2,182,840	2,054,009	486,363	6,870,271
Additions	275,405	-	56,256	165,211	496,872
Disposals	(700,000)	-	-	(101,861)	(801,861)
At 31 May 2006	1,722,464	2,182,840	2,110,265	549,713	6,565,282
Depreciation					
At 1 June 2005	21,471	72,806	1,214,675	225,957	1,534,909
On disposals	(7,000)	-	-	(35,436)	(42,436)
Charge for the year	19,982	26,410	222,639	116,482	385,513
At 31 May 2006	34,453	99,216	1,437,314	307,003	1,877,986
Net book value					
At 31 May 2006	1,688,011	2,083,624	672,951	242,710	4,687,296
At 31 May 2005	2,125,588	2,110,034	839,334	260,406	5,335,362

Included above are assets held under finance leases or hire purchase contracts as follows:

	Fixtures, fittings & equipment £	Motor vehicles £	Total £
Net book values			
At 31 May 2006	-	-	-
Depreciation charge for the year			
31 May 2006	-	-	-

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

10 Fixed asset investments Group

	Unlisted investments £	Total £
Cost		
At 1 June 2005 & at 31 May 2006	20,000	20,000
At 31 May 2005	20,000	20,000

Fixed asset investments Company

	Unlisted investments £	Shares in group undertakings £	Total £
Cost			
At 1 June 2005	-	4,491,327	4,491,327
Additions	20,000	563,830	583,830
At 31 May 2006	20,000	5,055,157	5,075,157
Provisions for diminution in value			
At 1 June 2005	-	-	-
Charge for the year	-	4,994,635	4,994,635
At 31 May 2006	-	4,994,635	4,994,635
Net book value			
At 31 May 2006	20,000	60,522	80,522
At 31 May 2005	-	4,491,327	4,491,327

In the opinion of the directors, the aggregate value of the company's investment in subsidiary undertakings is not less than the amount included in the balance sheet.

11 Stocks

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Finished goods and goods for resale	4,553,891	4,531,710	4,553,891	-

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

12 Debtors

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Trade debtors	6,086,213	6,195,360	6,086,213	-
Amounts owed by group undertakings	-	-	54,346	2,724,634
Other debtors	11,327	24,778	11,327	529
Prepayments and accrued income	75,052	51,816	75,052	45,069
	<u>6,172,592</u>	<u>6,271,954</u>	<u>6,226,938</u>	<u>2,770,232</u>

13 Creditors : amounts falling due within one year

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Bank loans and overdrafts	182,499	2,633,271	172,227	1,401,373
Trade creditors	3,560,975	3,344,661	3,560,975	-
Amounts owed to group undertakings	-	-	62,204	4,093,791
Corporation tax	317,327	243,017	317,327	72,214
Taxes and social security costs	846,758	820,651	846,758	448,051
Directors current accounts	148,896	-	148,896	-
Other creditors	755,529	1,072,534	755,529	354,559
Accruals and deferred income	223,214	130,854	223,214	19,000
Proposed dividend	-	200,000	-	200,000
	<u>6,035,198</u>	<u>8,444,988</u>	<u>6,087,130</u>	<u>6,588,988</u>
Debt due in one year or less	<u>201,017</u>	<u>-</u>	<u>201,017</u>	<u>-</u>

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

14 Creditors : amounts falling due after more than one year

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Bank loans	1,100,634	-	1,100,634	-
Other loans	364,332	200,000	364,332	200,000
	<u>1,464,966</u>	<u>200,000</u>	<u>1,464,966</u>	<u>200,000</u>
Analysis of loans				
Wholly repayable within five years	1,665,983	1,212,101	1,665,983	200,000
Included in current liabilities	(201,017)	(1,012,101)	(201,017)	-
	<u>1,464,966</u>	<u>200,000</u>	<u>1,464,966</u>	<u>200,000</u>
Loan maturity analysis				
In more than one year but not more than two years	203,176	200,000	203,176	200,000
In more than two years but not more than five years	624,164	-	624,164	-
In more than five years	637,626	-	637,626	-
	<u>1,464,966</u>	<u>200,000</u>	<u>1,464,966</u>	<u>200,000</u>

1) The £200,000 loan from the Morelli Group Pension Fund was repaid during the year.

2) The loan disclosed in other loans from the Morelli Group Pension Fund was originally for £393,122 and was dated 17 January 2006. It is for ten years, due to mature on 1 February 2016. Interest is payable quarterly at 7.5%.

3) The bank loan was originally for £1,300,000 and was dated 8 December 2005. It is for ten years from drawdown. Interest is payable at 1.3750% above HSBC Bank Plc base rate.

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

15 Provisions for liabilities and charges Group

Deferred
taxation
£

Balance at 1 June 2005	106,141
Profit and loss account	(27,725)
	<u>78,416</u>
Balance at 31 May 2006	<u>78,416</u>

Company

Balance at 1 June 2005	51,421
Transferred from subsidiary undertakings	54,720
Profit and loss account	(27,725)
	<u>78,416</u>
Balance at 31 May 2006	<u>78,416</u>

The deferred tax liability is made up as follows:

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Accelerated capital allowances	<u>78,416</u>	<u>106,141</u>	<u>78,416</u>	<u>51,421</u>

16 Pension costs

	2006	2005
	£	£
Contributions payable by the company for the year	<u>322,990</u>	<u>110,227</u>
Contributions payable by the group for the year	<u>322,990</u>	<u>317,805</u>

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

17 Share capital	2006 £	2005 £
Authorised		
2,141,448 A Ordinary shares of £1 each	2,141,448	2,141,448
5,000 B Ordinary shares of £1 each	5,000	5,000
1,237,491 C Ordinary shares of £1 each	1,237,491	1,237,491
	<u>3,383,939</u>	<u>3,383,939</u>
 Allotted, called up and fully paid		
2,141,448 A Ordinary shares of £1 each	2,141,448	2,141,448
5,000 B Ordinary shares of £1 each	5,000	5,000
1,237,491 C Ordinary shares of £1 each	1,237,491	1,237,491
	<u>3,383,939</u>	<u>3,383,939</u>

The A ordinary, B ordinary and C ordinary shares differ with respect to dividend, voting and distribution rights. The A ordinary shares and C ordinary shares carry dividend and voting rights proportional to holdings, and are entitled to participate in any surplus on winding up of the company. The B ordinary shares carry dividend rights only, but carry no voting rights and no entitlement to participation in any surplus on winding up. Except for the dividend, voting and distribution rights described above, the A ordinary, B ordinary and C ordinary shares carry the same rights and privileges and rank pari passu.

18 Statement of movements on reserves Group

	Share premium account £	Profit and loss account £
Balance at 1 June 2005	1,336,218	2,600,845
Retained profit for the year	-	392,339
	<u>1,336,218</u>	<u>2,993,184</u>

Company

	Share premium account £	Profit and loss account £
Balance at 1 June 2005	1,336,218	105,009
Profit for the year	-	3,508,336
Dividends paid	-	(200,000)
	<u>1,336,218</u>	<u>3,413,345</u>

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

19 Reconciliation of movements in shareholders' funds	2006	2005
	£	£
Group		
Profit for the financial year	592,339	332,280
Dividends	(200,000)	(200,000)
	<u>392,339</u>	<u>132,280</u>
Proceeds from issue of shares	-	2,573,709
	<u>392,339</u>	<u>2,705,989</u>
Net addition to shareholders' funds	7,321,002	4,615,013
Opening shareholders' funds	<u>7,713,341</u>	<u>7,321,002</u>
Closing shareholders' funds	<u>7,713,341</u>	<u>7,321,002</u>
	2006	2005
Company	£	£
Profit for the financial year	3,508,336	38,374
Dividends	(200,000)	(200,000)
	<u>3,308,336</u>	<u>(161,626)</u>
Proceeds from issue of shares	-	2,573,709
	<u>3,308,336</u>	<u>2,412,083</u>
Net addition to shareholders' funds	4,825,166	2,413,083
Opening shareholders' funds	<u>8,133,502</u>	<u>4,825,166</u>
Closing shareholders' funds	<u>8,133,502</u>	<u>4,825,166</u>

20 Contingent liabilities

Group

The group companies have entered into a multilateral guarantee to the bank in respect of a collective net overdraft facility not exceeding £3.5m to the company and its subsidiary companies, due for review in November 2006. The bank holds debentures with fixed and floating charges over the assets of the company and the assets of each of its subsidiaries to secure this overriding indebtedness.

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

21 Financial commitments

At 31 May 2006 the group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2006	2005	2006	2005
	£	£	£	£
Expiry date:				
Within one year	-	-	83,938	5,701
Between two and five years	-	-	360,182	178,401
In over five years	268,553	-	-	-
	<u>268,553</u>	<u>-</u>	<u>444,120</u>	<u>362,503</u>

22 Directors' emoluments

	2006	2005
	£	£
Remuneration	1,017,674	884,599
Company pension contributions to money purchase schemes	50,000	156,535
	<u>1,067,674</u>	<u>1,041,134</u>

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 2 (2005- 2).

Emoluments disclosed above include the following amounts paid to the highest paid director:

Emoluments for qualifying services	<u>205,292</u>	<u>184,122</u>
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MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

23 Employees

Number of employees

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

	2006 Number	2005 Number
Stores, warehouse and drivers	130	134
Administration	43	34
Sales	95	91
	<u>268</u>	<u>259</u>

Employment costs

	£	£
Wages and salaries	6,041,505	6,308,736
Social security costs	699,395	596,687
Other pension costs	322,990	317,805
	<u>7,063,890</u>	<u>7,223,228</u>

24 Control

There is no ultimate controlling party.

25 Related party transactions

Group

During the year the trade, assets, and liabilities of Morelli & Co (Uxbridge) Limited, Morelli (Equipment) Limited, Morelli (Central) Limited, and Morelli & Co (London) Limited were transferred to Morelli Group Limited.