

Company Registration No. 02711932 (England and Wales)

MORELLI GROUP LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 31 MAY 2004



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	A J Toms
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 2004

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

Directors

The following directors have held office since 1 June 2003:

D Moring
Mrs P Moring
J Moring
Mrs J 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 company acts as a holding company and service and administration centre co-ordinating the activities of the other members of the group.

The Chairman reported satisfactory results despite competitive trading conditions. Turnover has remained steady and with the careful control of overheads, profit remains at a satisfactory level.

The company has taken over the business of Car Paints Group Limited and Chiltern Car Paints Limited, who were a competitor of the company, during the year. The group are in a strong position to take advantage of any opportunities which may arise. With this in mind, further acquisitions will continue to receive sufficient consideration.

Results and dividends

The consolidated profit and loss account for the year is set out on page 5.

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 and rationalise the groups activities.

MORELLI GROUP LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 MAY 2004

Directors' interests

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

	A Ordinary shares of £1 each	
	31 May 2003	1 June 2002
D Moring	413,940	413,940
Mrs P Moring	115,622	115,622
J Moring	409,411	409,411
Mrs J Moring	114,410	114,410
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 2003	1 June 2002
D Moring	1,000	1,000
Mrs P Moring	-	-
J Moring	1,000	1,000
Mrs J 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	-	-

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.

Creditor payment policy

The group pays its creditors in accordance with agreed terms of trade.

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 2004

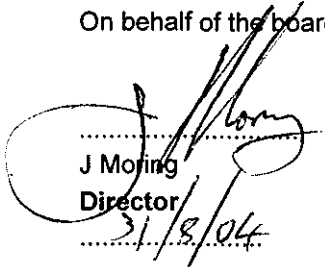
Directors' responsibilities

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 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the board



J Moring
Director
31/8/04

MORELLI GROUP LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MORELLI GROUP LIMITED

We have audited the financial statements of Morelli Group Limited on pages 5 to 24 for the year ended 31 May 2004. These financial statements have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) 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 on page 3 the company's directors are responsible for the preparation of the 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 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 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.

Opinion

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



Carter Backer Winter

Chartered Accountants
Registered Auditor

3 September 2004

Enterprise House
21 Buckle Street
London
E1 8NN

MORELLI GROUP LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MAY 2004

		2004 £	2003 £
	Notes		
Turnover	2	31,296,994	30,162,996
Cost of sales		(19,759,593)	(19,362,877)
Gross profit		11,537,401	10,800,119
Administrative expenses		(10,778,965)	(10,059,635)
Exceptional item	3	(550,000)	-
Other operating income		35,778	31,324
Operating profit	3	244,214	771,808
Share of operating profit in associate		28,032	29,003
Profit on ordinary activities before interest		272,246	800,811
Other interest receivable and similar income		2,955	169
Interest payable and similar charges	4	(148,333)	(120,214)
Profit on ordinary activities before taxation	3	126,868	680,766
Tax on profit on ordinary activities	5	(87,552)	(233,484)
Profit on ordinary activities after taxation		39,316	447,282
Dividends	7	(200,000)	(200,000)
Retained (loss)/profit for the year	17	(160,684)	247,282

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

MORELLI GROUP LIMITED

STATEMENT OF RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MAY 2004

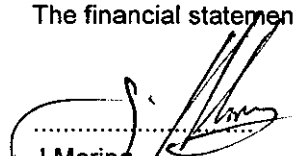
	2004	2003
	£	£
Profit for the financial year	39,316	447,282
Unrealised surplus on revaluation of properties	104,864	42,312
Total recognised gains and losses relating to the year	<u>144,180</u>	<u>489,594</u>

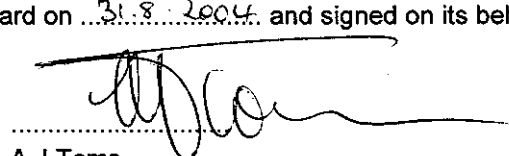
MORELLI GROUP LIMITED

BALANCE SHEETS AS AT 31 MAY 2004

		Group		Company	
		2004	2003	2004	2003
	Notes	£	£	£	£
Fixed assets					
Tangible assets	8	1,639,193	1,692,946	471,393	507,960
Investments	9	575,256	464,853	1,899,522	1,899,522
		<u>2,214,449</u>	<u>2,157,799</u>	<u>2,370,915</u>	<u>2,407,482</u>
Current assets					
Stocks	10	4,824,215	4,337,982	-	-
Debtors	11	6,002,912	5,434,713	2,358,257	1,797,050
Cash at bank and in hand		3,083	85,096	575	535
		<u>10,830,210</u>	<u>9,857,791</u>	<u>2,358,832</u>	<u>1,797,585</u>
Creditors: amounts falling due within one year	12	(7,207,675)	(6,066,493)	(2,057,915)	(1,515,937)
Net current assets		<u>3,622,535</u>	<u>3,791,298</u>	<u>300,917</u>	<u>281,648</u>
Total assets less current liabilities		<u>5,836,984</u>	<u>5,949,097</u>	<u>2,671,832</u>	<u>2,689,130</u>
Creditors: amounts falling due after more than one year	13	(1,091,145)	(1,140,898)	(200,000)	(200,000)
Provisions for liabilities and charges	14	(130,826)	(137,366)	(58,749)	(57,684)
		<u>4,615,013</u>	<u>4,670,833</u>	<u>2,413,083</u>	<u>2,431,446</u>
Capital and reserves					
Called up share capital	16	2,146,448	2,146,448	2,146,448	2,146,448
Revaluation reserve	17	295,735	190,871	-	-
Profit and loss account	17	2,172,830	2,333,514	266,635	284,998
Shareholders' funds - equity interests	18	<u>4,615,013</u>	<u>4,670,833</u>	<u>2,413,083</u>	<u>2,431,446</u>

The financial statements were approved by the board on 31.8.2004 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 2004

	2004		2003	
	£	£	£	£
Net cash inflow from operating activities		575,142		827,960
Returns on investments and servicing of finance				
Interest received	2,948		169	
Interest paid	(146,281)		(117,141)	
Net cash outflow for returns on investments and servicing of finance		(143,333)		(116,972)
Taxation		(157,543)		(294,634)
Capital expenditure				
Payments to acquire intangible assets	(550,000)		-	
Payments to acquire tangible assets	(404,148)		(242,959)	
Receipts from sales of tangible assets	143,912		63,170	
Net cash outflow for capital expenditure		(810,236)		(180,289)
Equity dividends paid		(200,000)		(200,000)
Net cash (outflow)/inflow before management of liquid resources and financing		(735,970)		36,065
Financing				
New long term bank loan	49,727		99,840	
Repayment of long term bank loan	(99,480)		(51,031)	
Capital element of hire purchase contracts	(15,255)		(83,232)	
Net cash outflow from financing		(65,008)		(34,424)
Decrease in cash in the year		(800,978)		1,641

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MAY 2004

1	Reconciliation of operating profit to net cash inflow from operating activities	2004	2003		
		£	£		
	Operating profit	244,214	771,808		
	Depreciation of tangible assets	324,696	330,461		
	Amortisation of intangible assets	550,000	-		
	(Profit)/loss on disposal of tangible assets	(10,707)	5,177		
	Increase in stocks	(486,233)	(411,532)		
	(Increase)/decrease in debtors	(568,199)	327,094		
	Increase/(decrease) in creditors within one year	521,371	(197,044)		
	Net cash inflow from operating activities	575,142	827,960		
2	Analysis of net debt	1 June 2003	Cash flow	Other non-cash changes	31 May 2004
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	85,096	(82,013)	-	3,083
	Bank overdrafts	(184,771)	(718,965)	-	(903,736)
		(99,675)	(800,978)	-	(900,653)
	Finance leases	(15,255)	15,255	-	-
	Debts falling due within one year	(99,840)	-	-	(99,840)
	Debts falling due after one year	(1,140,898)	49,753	-	(1,091,145)
		(1,255,993)	65,008	-	(1,190,985)
	Net debt	(1,355,668)	(735,970)	-	(2,091,638)
3	Reconciliation of net cash flow to movement in net debt	2004	2003		
		£	£		
	(Decrease)/increase in cash in the year	(800,978)	1,641		
	Cash outflow from decrease in debt	65,008	34,424		
	Movement in net debt in the year	(735,970)	36,065		
	Opening net debt	(1,355,668)	(1,391,733)		
	Closing net debt	(2,091,638)	(1,355,668)		

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MAY 2004

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention modified to include the revaluation of freehold land and buildings.

1.2 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 2004. 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.

1.3 Associated undertakings

The group's share of profits less losses of associated undertakings is included in the consolidated profit and loss account, and the group's share of their net assets is included in the consolidated balance sheet. These amounts are taken from the latest audited financial statements of the undertakings concerned.

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 are stated at cost or valuation less depreciation. Depreciation is provided at rates calculated to write off the cost or valuation less estimated residual value of each asset over its expected useful life, as follows:

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

1.7 Leasing

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

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.

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2004

1 Accounting policies

(continued)

1.10 Pensions

The pension costs charged in the financial statements represent the contributions payable by the company during the year in accordance with FRS 17.

1.11 Deferred taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

No provision has been made for deferred tax on gains recognised on revaluing property to its market value as the company does not intend to sell the revalued assets.

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 profit and loss account.

1.13 The effect of acquisitions

The results of the acquired businesses of Car Paints Group Limited and Chiltern Car Paints Limited have been integrated into existing activities in such a way that their contribution to turnover and operating profit cannot be determined.

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

	2004 £	2003 £
Operating profit is stated after charging:		
Depreciation of tangible assets	324,696	330,461
Loss on disposal of tangible assets	8,904	5,677
Operating lease rentals	490,863	472,814
Auditors' remuneration (company £17,900; 2003: £8,000)	72,500	64,750
and after crediting:		
Rents receivable	10,411	11,358
Profit on disposal of tangible assets	(19,611)	(500)
	<u>2004</u> £	<u>2003</u> £
Exceptional items		
Amortisation of goodwill	550,000	-

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2004

4	Interest payable	2004	2003
		£	£
	On bank loans and overdrafts	95,963	58,622
	On loans repayable after 5 years	50,062	54,506
	Lease finance charges	256	4,013
	Other interest - associate	2,052	3,073
		<u>148,333</u>	<u>120,214</u>
5	Taxation		
		£	£
	Domestic current year tax		
	U.K. corporation tax	73,644	232,543
	Current tax charge	<u>73,644</u>	<u>232,543</u>
	Share of associates tax on profit on ordinary activities	20,448	7,380
	Deferred tax		
	Deferred tax charge/credit current year	(6,540)	(6,439)
		<u>87,552</u>	<u>233,484</u>
	Factors affecting the tax charge for the year		
	Profit on ordinary activities before taxation	<u>126,868</u>	<u>680,766</u>
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2003: 30.00%)	<u>38,060</u>	<u>204,230</u>
	Effects of:		
	Non deductible expenses	42,763	30,560
	Depreciation add back	73,449	99,813
	Capital allowances	(68,326)	(88,573)
	Tax losses utilised	74,107	54,839
	Foreign tax adjustments	(9,744)	(1,003)
	Adjustments to previous periods	(34,782)	(9,899)
	Other tax adjustments	(41,883)	(57,424)
		<u>35,584</u>	<u>28,313</u>
	Current tax charge	<u>73,644</u>	<u>232,543</u>

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2004

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:

	2004 £	2003 £
Holding company's profit for the financial year	<u>181,637</u>	<u>215,574</u>

7 Dividends

	2004 £	2003 £
Ordinary final proposed	<u>200,000</u>	<u>200,000</u>
	<u>200,000</u>	<u>200,000</u>

The group has proposed a final dividend of £40 per share on the B Ordinary shares.

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2004

8 Tangible fixed assets Group

	Land and buildings Leasehold £	Fixtures, fittings & equipment £	Motor vehicles £	Total £
Cost or valuation				
At 1 June 2003	343,744	1,968,313	599,148	2,911,205
Additions	39,096	67,166	297,886	404,148
Disposals	-	-	(447,790)	(447,790)
At 31 May 2004	382,840	2,035,479	449,244	2,867,563
Depreciation				
At 1 June 2003	41,244	789,358	387,657	1,218,259
On disposals	-	-	(314,585)	(314,585)
Charge for the year	5,152	210,900	108,644	324,696
At 31 May 2004	46,396	1,000,258	181,716	1,228,370
Net book value				
At 31 May 2004	336,444	1,035,221	267,528	1,639,193
At 31 May 2003	302,500	1,178,955	211,491	1,692,946

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 2004	-	14,653	14,653
At 31 May 2003	-	60,258	60,258
Depreciation charge for the year			
31 May 2004	-	8,984	8,984
31 May 2003	-	38,740	38,740

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2004

8 Tangible fixed assets (continued) Company

	Fixtures, fittings & equipment £	Motor vehicles £	Total £
Cost			
At 1 June 2003	604,774	170,594	775,368
Additions	33,164	78,066	111,230
Disposals	-	(131,403)	(131,403)
At 31 May 2004	637,938	117,257	755,195
Depreciation			
At 1 June 2003	188,007	79,401	267,408
On disposals	-	(64,800)	(64,800)
Charge for the year	51,880	29,314	81,194
At 31 May 2004	239,887	43,915	283,802
Net book value			
At 31 May 2004	398,051	73,342	471,393
At 31 May 2003	416,767	91,193	507,960

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 2004	-	-	-
At 31 May 2003	-	32,044	32,044
Depreciation charge for the year			
31 May 2004	-	-	-
31 May 2003	-	17,956	17,956

As permitted by FRS 15 "Tangible Fixed Assets" the Group has elected not to adopt a policy of revaluation of tangible fixed assets. It will retain the carrying value of land and buildings, previously revalued in 1999, and will not update that valuation.

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2004

9 Fixed asset investments Group

	Unlisted Investment in investments £	Associate £	Total £
Cost or valuation			
At 1 June 2003	20,000	444,853	464,853
Additions	-	110,403	110,403
At 31 May 2004	20,000	555,256	575,256
At 31 May 2003	20,000	444,853	464,853

9a) Investment in associate at valuation

	2004 £	2003 £
Cost or valuation		
At 1 June 2003	444,853	383,984
Share of net income and revaluation surplus	110,403	60,869
At 31 May 2004	555,256	444,853

The group holds 479 shares out of the total called up ordinary share capital of 3,000 in Alenco Properties Limited. The principal activity of Alenco Properties Limited is property investment. Additional disclosures are given in respect of Alenco Properties Limited which exceeds certain thresholds under Financial Reporting Standard 9 "Associates and Joint Ventures" and over whose affairs the group exercises significant influence by virtue of common shareholders' control.

	2004 £	2003 £
Share of Turnover	36,603	36,710
Share of Assets		
Share of fixed assets	560,430	513,033
Share of current assets	61,841	-
	622,271	513,033
Share of liabilities		
Liabilities due within one year	(57,722)	(42,038)
Liabilities due after more than one year	(9,293)	(26,142)
	(67,015)	(68,180)
Share of net assets	555,256	444,853

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2004

9 Fixed asset investments (continued)

	Shares in group undertakings £
Cost	
At 1 June 2003 & at 31 May 2004	1,899,522
At 31 May 2003	1,899,522

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.

Holdings of more than 20%

The company holds more than 20% of the share capital of the following companies:

Company	Country of registration or incorporation	Class	Shares held %
Subsidiary undertakings			
Morelli & Co (London) Limited	England and Wales	Ordinary	100
Morelli & Co (Uxbridge) Limited	England and Wales	Ordinary	100
Morelli (Equipment) Limited	England and Wales	Ordinary	100
Morelli (Central) Limited	England and Wales	Ordinary	100

The principal activity of these undertakings for the last relevant financial year was as follows:

	Principal activity
Morelli & Co (London) Limited	Paint stockists
Morelli & Co (Uxbridge) Limited	Paint stockists
Morelli (Equipment) Limited	Paint stockists
Morelli (Central) Limited	Paint stockists

10 Stocks

	Group 2004 £	2003 £	Company 2004 £	2003 £
Finished goods and goods for resale	4,824,215	4,337,982	-	-

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2004

11 Debtors

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Trade debtors	5,841,619	5,333,607	-	-
Amounts owed by group undertakings	-	-	2,321,315	1,765,065
Amounts owed by participating interests	44,667	28,150	-	-
Other debtors	65,853	28,011	1,559	2,230
Prepayments and accrued income	50,773	44,945	35,383	29,755
	<u>6,002,912</u>	<u>5,434,713</u>	<u>2,358,257</u>	<u>1,797,050</u>

12 Creditors : amounts falling due within one year

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Bank loans and overdrafts	1,003,576	284,611	127,919	69,907
Net obligations under finance lease and hire purchase contracts	-	15,255	-	7,718
Trade creditors	3,719,285	3,703,653	-	-
Amounts owed to group undertakings	-	-	773,446	674,196
Amounts owed to participating interests	374,585	-	374,585	-
Corporation tax	72,035	155,934	44,619	64,660
Taxes and social security costs	792,904	680,672	221,696	189,537
Other creditors	958,740	947,717	292,100	296,269
Accruals and deferred income	86,550	78,651	23,550	13,650
Proposed dividend	200,000	200,000	200,000	200,000
	<u>7,207,675</u>	<u>6,066,493</u>	<u>2,057,915</u>	<u>1,515,937</u>

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2004

13 Creditors : amounts falling due after more than one year

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Bank loans	791,145	840,898	-	-
Other loans	300,000	300,000	200,000	200,000
	<u>1,091,145</u>	<u>1,140,898</u>	<u>200,000</u>	<u>200,000</u>
Analysis of loans				
Wholly repayable within five years	1,190,985	1,240,738	200,000	200,000
Included in current liabilities	(99,840)	(99,840)	-	-
	<u>1,091,145</u>	<u>1,140,898</u>	<u>200,000</u>	<u>200,000</u>
Loan maturity analysis				
In more than one year but not more than two years	-	100,000	-	-
In more than two years but not more than five years	<u>1,091,145</u>	<u>1,040,898</u>	<u>200,000</u>	<u>200,000</u>

1) The loan of £100,000 from Morelli Group Pension Fund was dated 23 April 1998 for 5 years and extended on 23 April 2003 to now mature on 23 April 2008. Interest is payable annually on 31 January at 3% above base rate.

2) The £100,000 loan from the Group Pension Fund due for repayment on 1st April 2001 has been extended to 1st April 2006 or earlier at the option of the company at one month's notice for repayment. Interest is payable annually on 1st April at 3% above bank base rate.

3) On 16 April 2002, a further loan of £100,000 was advanced repayable on 23 April 2007 or earlier at the option of the company at one month's notice of repayment. Interest is payable annually on 31 January at 3% above bank base rate.

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2004

14 Provisions for liabilities and charges Group

	Deferred taxation £
Balance at 1 June 2003	137,366
Profit and loss account	(6,540)
	<u>130,826</u>
Balance at 31 May 2004	<u>130,826</u>

Company

Balance at 1 June 2003	57,684
Profit and loss account	1,065
	<u>58,749</u>
Balance at 31 May 2004	<u>58,749</u>

The deferred tax liability is made up as follows:

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Accelerated capital allowances	<u>130,826</u>	<u>137,366</u>	<u>58,749</u>	<u>57,684</u>

15 Pension costs

	2004 £	2003 £
Contributions payable by the company for the year	<u>104,081</u>	<u>89,596</u>
Contributions payable by the group for the year	<u>412,776</u>	<u>396,284</u>

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2004

16 Share capital	2004	2003
	£	£
Authorised		
2,500,000 A Ordinary shares of £1 each	2,500,000	2,500,000
5,000 B Ordinary shares of £1 each	5,000	5,000
	<u>2,505,000</u>	<u>2,505,000</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
	<u>2,146,448</u>	<u>2,146,448</u>
17 Statement of movements on reserves Group		
	Revaluation reserve	Profit and loss account
	£	£
Balance at 1 June 2003	190,871	2,333,514
Retained loss for the year	-	(160,684)
Revaluation during the year	104,864	-
	<u>295,735</u>	<u>2,172,830</u>
Balance at 31 May 2004		
Company		
		Profit and loss account
		£
Balance at 1 June 2003		284,998
Retained loss for the year		(18,363)
		<u>266,635</u>
Balance at 31 May 2004		

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2004

18 Reconciliation of movements in shareholders' funds	2004		2003	
	Group		Group	
	£		£	
Profit for the financial year	39,316		447,282	
Dividends	(200,000)		(200,000)	
	(160,684)		247,282	
Other recognised gains and losses	104,864		42,312	
Net (depletion in)/addition to shareholders' funds	(55,820)		289,594	
Opening shareholders' funds	4,670,833		4,381,239	
Closing shareholders' funds	4,615,013		4,670,833	
	2004		2003	
	£		£	
Company				
Profit for the financial year	181,637		215,574	
Dividends	(200,000)		(200,000)	
Net (depletion in)/addition to shareholders' funds	(18,363)		15,574	
Opening shareholders' funds	2,431,446		2,415,872	
Closing shareholders' funds	2,413,083		2,431,446	

19 Contingent liabilities

Group

The company has entered into a multilateral guarantee to the bank in respect of a collective net overdraft facility not exceeding £3.5m to group and associated companies. The bank holds a debenture on the assets of the company to serve this overriding indebtedness.

20 Financial commitments

At 31 May 2004 the group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2004	2003	2004	2003
	£	£	£	£
Expiry date:				
Within one year	144,438	139,711	313,205	52,000
Between two and five years	-	-	477,550	444,898
In over five years	237,575	251,469	-	-
	382,013	391,180	790,755	496,898

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2004

21 Directors' emoluments	2004 £	2003 £
Remuneration	884,599	868,371
Company pension contributions to money purchase schemes	156,535	150,000
	<u>1,041,134</u>	<u>1,018,371</u>

Emoluments disclosed above (excluding pension contributions) include amounts paid to:

The highest paid director	<u>191,805</u>	<u>189,106</u>
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The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 2 (2003- 2).

22 Employees

Number of employees

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

	2004 Number	2003 Number
Warehouse and drivers	138	141
Administration	51	54
Sales	95	93
	<u>284</u>	<u>288</u>

Employment costs

	£	£
Wages and salaries	5,967,398	5,579,950
Social security costs	574,184	529,184
Other pension costs	412,776	396,284
	<u>6,954,358</u>	<u>6,505,418</u>

23 Control

There is no ultimate controlling party.

MORELLI GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2004

24 Related party transactions

Group

a) Included in other debtors is the amount of £43,230 (2003: £28,150) representing moneys advanced to defray the cost of structural alterations and improvements to the group head-quarters owned by the associated property investment company, Alenco Properties Limited.

b) Annual commitments under non cancellable operating property leases includes in aggregate £165,500 (2003: £165,500) representing rents payable in respect of properties leased to the group from Alenco Properties Limited, its associated property investment company.

c) Included in amounts owed to participating interests is a loan from Alenco Properties Limited amounting to £374,585.